



FINANCIAL *Report*



FINANCIAL REPORT

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of National Savings and Commercial Bank Ltd.

We have audited, in accordance with the Hungarian National Standards on Auditing, the unconsolidated financial statements of National Savings and Commercial Bank Ltd. (the "Bank") for the year ended December 31, 2003, prepared in accordance with Hungarian accounting regulations, from which the accompanying summarized unconsolidated financial statements (balance sheet and profit and loss account), included on pages 69 to 71 of this Annual Report, were derived. In our independent auditors' report dated March 19, 2004, we expressed an unqualified opinion on the unconsolidated financial statements, prepared in accordance with the Hungarian accounting regulations, from which the accompanying summarized unconsolidated financial statements were derived.

In our opinion, the accompanying summarized unconsolidated financial statements are consistent, in all material respects, with the unconsolidated financial statements, prepared in accordance with Hungarian accounting regulations, from which they were derived.

For a better understanding of the Bank's unconsolidated financial position as at December 31, 2003 and the unconsolidated results of its operations for the year then ended, prepared in accordance with the Hungarian accounting regulations and of the scope of our audit, the accompanying summarized unconsolidated financial statements should be read in conjunction with the unconsolidated financial statements and the related notes from which the summarized unconsolidated financial statements were derived and our independent auditors' report thereon.

Budapest, May 17, 2004

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Registered by the Budapest Court of Registration
Company Reg. No.: 01-09-071057

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Deloitte Touche Tohmatsu



BALANCE SHEET

(unconsolidated, based on HAR) as at December 31, 2003 in HUF mn

ASSETS	2002	2003
1. CASH IN HAND, BALANCES WITH CENTRAL BANKS	346,963	252,975
2. TREASURY BILLS	401,855	402,543
a) held for trade	111,072	135,011
b) held as financial fixed assets (for long term investment)	290,783	267,532
3. LOANS AND ADVANCES TO CREDIT INSTITUTIONS	263,157	165,209
a) repayable on demand	5,317	4,700
b) other receivables from financial services	257,840	160,509
4. LOANS AND ADVANCES TO CUSTOMERS	1,010,197	1,089,158
a) receivables from financial services	1,007,900	1,088,064
aa) maturity not more than one year	376,659	399,920
ab) maturity more than one year	631,241	688,144
b) receivables from investment services	2,297	1,094
5. DEBT SECURITIES INCLUDING FIXED-INCOME SECURITIES	153,188	533,136
a) securities issued by local self-governing bodies and by other public body (not include the treasury bills issued by Hungarian State and securities issued by Hungarian National Bank)		1,300
b) securities issued by other bodies	153,188	531,836
6. SHARES AND OTHER VARIABLE-YIELD SECURITIES	5,682	7,628
7. SHARES AND PARTICIPATING INTEREST AS FINANCIAL FIXED ASSETS	622	754
8. SHARES AND PARTICIPATING INTEREST IN AFFILIATED UNDERTAKINGS	42,908	100,199
9. INTANGIBLE ASSETS	13,793	43,961
10. TANGIBLE ASSETS	49,886	63,589
a) tangible assets for financial and investment services	47,027	60,450
b) tangible assets not for directly financial and investment services	2,859	3,139
c) revaluation surplus on tangible assets	0	0
11. OWN SHARES	16,883	14,328
12. OTHER ASSETS	50,371	45,070
13. PREPAYMENTS AND ACCRUED INCOME	34,615	40,056
TOTAL ASSETS	2,390,120	2,758,606
From this:		
– CURRENT ASSETS	1,154,361	1,128,176
– FIXED ASSETS	1,201,144	1,590,374



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LIABILITIES	2002	2003
1. LIABILITIES TO CREDIT INSTITUTIONS	28,220	91,080
a) repayable on demand	1,701	5,430
b) liabilities from financial services with maturity dates or periods of notice	26,519	85,650
2. LIABILITIES TO CUSTOMERS	1,992,081	2,228,287
a) saving deposits	353,303	345,772
b) other liabilities from financial services	1,638,276	1,881,637
c) liabilities from investment services	502	878
3. LIABILITIES FROM ISSUED DEBT SECURITIES	62,689	58,130
a) issued bond	2,015	2,101
b) issued other debt securities	338	238
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	60,336	55,791
4. OTHER LIABILITIES	41,694	49,879
a) maturity not more than one year	41,694	49,879
b) maturity more than one year	0	0
5. ACCRUALS AND DEFERRED INCOME	23,108	27,268
a) accrued liabilities	1,340	338
b) accrued costs and expenses	18,525	24,450
c) deferred income	3,243	2,480
6. PROVISIONS	20,974	26,773
a) provisions for pensions and similar obligations	1,000	1,546
b) risk provision for off-balance sheet items (for pending and future liabilities)	3,732	7,294
c) general risk provision	14,254	17,057
d) other provision	1,988	876
7. SUBORDINATED LIABILITIES	15,511	15,413
a) subordinated loan capital	15,511	15,413
8. SUBSCRIBED CAPITAL	28,000	28,000
From this: repurchased own shares at face value	1,543	1,324
9. SUBSCRIBED BUT UNPAID CAPITAL (-)	0	0
10. CAPITAL RESERVES	52	52
a) premium (from share issue)	0	0
b) other	52	52
11. GENERAL RESERVES	34,169	41,325
12. RETAINED EARNINGS (ACCUMULATED PROFIT RESERVE) (+/-)	84,261	130,465
13. LEGAL RESERVES	16,883	14,328
14. REVALUATION RESERVE	0	0
15. PROFIT OR LOSS FOR THE FINANCIAL YEAR ACCORDING TO THE BALANCE SHEET (+/-)	42,478	47,606
TOTAL LIABILITIES	2,390,120	2,758,606
From this:		
- SHORT-TERM LIABILITIES	2,104,797	2,326,249
- LONG-TERM LIABILITIES	35,398	116,540
- EQUITY (CAPITAL AND RESERVES)	205,843	261,776
OFF-BALANCE SHEET COMMITMENTS	787,613	776,970
1. CONTINGENT LIABILITIES	551,870	503,429
2. FUTURE LIABILITIES	235,743	273,541
OFF-BALANCE SHEET ASSETS	442,268	311,513



PROFIT AND LOSS ACCOUNT

(unconsolidated, based on HAR) for the year ended December 31, 2003 in HUF mn

	2002	2003
1. Interest received and interest-type income	188,780	205,634
a) interest received on securities with fixed-interest signifying a creditor relationship	42,879	63,919
b) other interest received and interest-type income	145,901	141,715
2. Interest paid and interest-type expenses	86,065	87,452
INTEREST DIFFERENCE	102,715	118,182
3. Incomes from securities	332	7,691
4. Fees and commission received	63,545	94,680
5. Fees and commission paid	7,780	10,872
6. Profit or loss from financial transactions [6.a)–6.b)+6.c)–6.d)]	1,748	– 5,194
a) revenues from other financial services	34,592	14,393
b) expenses on other financial services	31,304	19,315
c) revenues from investment services (revenues from trading activities)	6,328	11,961
d) expenses on investment services (expenses on trading activities)	7,868	12,233
7. Other incomes from business	211,587	479,693
8. General administration expenses	67,824	81,204
a) personnel expenses	36,188	43,820
b) other administration expenses	31,636	37,384
9. Depreciation and amortization	11,088	11,913
10. Other expenses from business	231,335	501,337
11. Write-off of loans and provision for contingent and future liabilities	15,134	17,114
a) write-off of loans	12,737	11,152
b) provision for contingent and future liabilities	2,397	5,962
12. Reversal of write-off of loans and credit for contingent and future liabilities	13,306	13,895
a) reversal of write-off of loans	12,672	11,394
b) credit for contingent and future liabilities	634	2,501
13. Write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	1,992	97
14. Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	1,349	322
15. Result of ordinary business activities	59,429	86,732
Including:		
– RESULT OF FINANCIAL AND INVESTMENT SERVICES	57,904	85,392
– RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES	1,525	1,340
16. Extraordinary revenues	39	1,735
17. Extraordinary expenses	1,386	1,766
18. Extraordinary profit or loss (16–17)	– 1,347	– 31
19. Profit or loss before tax (±15±18)	58,082	86,701
20. Tax liabilities	10,885	15,139
21. After-tax profit or loss (±19–20)	47,197	71,562
22. Formation and utilization of general reserves (+/–)	– 4,719	– 7,156
23. Use of accumulated profit reserve for dividends and profit-sharing	0	0
24. Dividends and profit-sharing paid (approved)	0	16,800
25. Balance-sheet profit or loss figure (±21±22+23–24)	42,478	47,606



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In our opinion, the accompanying summarized consolidated financial statements are consistent, in all material respects, with the consolidated financial statements, prepared in accordance with Hungarian accounting regulations, from which they were derived.

For a better understanding of the Bank's consolidated financial position as at December 31, 2003 and the consolidated results of its operations for the year then ended, prepared in accordance with the Hungarian accounting regulations and of the scope of our audit, the accompanying summarized consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes from which the summarized consolidated financial statements were derived and our independent auditors' report thereon.

Budapest, May 17, 2004

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B
BALANCE SHEET
(consolidated, based on HAR) as at December 31, 2003 in HUF mn

ASSETS	2002	2003
1. CASH IN HAND, BALANCES WITH CENTRAL BANKS	353,980	276,501
2. TREASURY BILLS	531,896	630,642
a) held for trade	177,986	246,870
b) held as financial fixed assets (for long term investment)	353,910	383,772
3. LOANS AND ADVANCES TO CREDIT INSTITUTIONS	281,400	252,314
a) repayable on demand	5,319	9,915
b) other receivables from financial services	276,081	242,399
ba) maturity not more than one year	261,925	232,088
From this: – by affiliated undertaking	28	1
– by undertaking with which the credit institution is linked by virtue of participating	48,300	13,025
– by Hungarian National Bank	12,847	13,070
bb) maturity more than one year	14,156	10,311
From this: – by Hungarian National Bank	434	0
4. LOANS AND ADVANCES TO CUSTOMERS	1,322,587	2,025,694
a) receivables from financial services	1,320,264	2,024,574
aa) maturity not more than one year	377,148	505,539
From this: – by affiliated undertaking	1,520	836
– by undertaking with which the credit institution is linked by virtue of participating		40
ab) maturity more than one year	943,116	1,519,035
From this: – by affiliated undertaking	14,121	20,805
– by undertaking with which the credit institution is linked by virtue of participating	474	284
b) receivables from investment services	2,323	1,120
From this: – by affiliated undertaking	843	– 1
bc) receivables from clients for investment service activities	2,323	1,120
5. DEBT SECURITIES INCLUDING FIXED-INCOME SECURITIES	21,108	32,590
a) securities issued by local self-governing bodies and by other public body (not include the treasury bills issued by Hungarian state and securities issued by Hungarian National Bank)	0	1,559
aa) held for trade	0	600
ab) held as financial fixed assets (for long term investment)	0	959
b) securities issued by other bodies	21,108	31,031
ba) held for trade	1,368	7,362
From this: – own-debt securities (own issued and repurchased)	0	299
bb) held as financial fixed assets (for long term investment)	19,740	23,669
From this: – by affiliated undertaking	182	62

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ASSETS	2002	2003
6. SHARES AND OTHER VARIABLE-YIELD SECURITIES	11,578	12,762
a) shares and participations for trade	101	94
From this: – by undertaking with which the credit institution is linked by virtue of participating	1	1
b) other variable-yield securities	11,477	12,668
ba) held for trade	5,387	4,502
bb) held as financial fixed assets (for long term investment)	6,090	8,166
7. SHARES AND PARTICIPATING INTEREST AS FINANCIAL FIXED ASSETS	5,681	6,396
a) shares and participating interest as financial fixed assets	5,681	6,396
From this: – shares and participating interest in credit institutions	1	345
8. SHARES AND PARTICIPATING INTEREST IN AFFILIATED UNDERTAKINGS	5,260	43,663
a) shares and participating interest in affiliated undertakings	5,194	4,926
c) capital consolidation difference	66	38,737
– from subsidiaries and joint managed companies	66	38,737
9. INTANGIBLE ASSETS	16,248	9,569
10. TANGIBLE ASSETS	74,861	108,698
a) tangible assets for financial and investment services	61,141	93,544
aa) land and buildings	42,154	67,897
ab) technical equipment, fittings and vehicles	11,990	19,719
ac) investment	6,986	5,910
ad) advance payments on investment	11	18
b) tangible assets not for directly financial and investment services	13,720	15,037
ba) land and buildings	6,580	8,880
bb) technical equipment, fittings and vehicles	6,906	5,680
bc) investment	192	476
bd) advance payments on investment	42	1
c) revaluation surplus on tangible assets	0	117
11. OWN SHARES	27,800	25,420
12. OTHER ASSETS	42,474	39,241
a) stocks (inventories)	11,340	12,763
b) other receivables (not from financial and investment securities)	31,134	26,478
From this: – by affiliated undertaking	715	1,100
– by undertaking with which the credit institution is linked by virtue of participating	15	2
b.1.) receivables of consolidated financial and investment service companies	26,484	20,884
b.2.) receivables of consolidated insurance companies	2,617	2,367
b.3.) receivables of consolidated other companies	2,033	3,227
13. PREPAYMENTS AND ACCRUED INCOME	39,209	39,173
a) accrued income	36,595	32,965
b) prepayments	2,614	6,208
TOTAL ASSETS	2,734,082	3,502,663
From this:		
– CURRENT ASSETS	1,255,811	1,349,252
– FIXED ASSETS	1,439,062	2,114,238

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LIABILITIES	2002	2003
1. LIABILITIES TO CREDIT INSTITUTIONS	60,832	126,353
a) repayable on demand	1,610	2,829
b) liabilities from financial services with maturity dates or periods of notice	59,222	123,524
ba) not more than one year	37,307	54,896
From this: – by affiliated undertaking	1	–
– by undertaking with which the credit institution is linked by virtue of participating	2,800	–
– by Hungarian National Bank	1,208	166
bb) more than one year	21,915	68,628
From this: – by Hungarian National Bank	3,158	1,212
2. LIABILITIES TO CUSTOMERS	2,140,397	2,697,843
a) saving deposits	358,926	442,155
aa) repayable on demand	45,301	137,023
ab) maturity not more than one year	313,327	304,890
ac) maturity more than one year	298	242
b) other liabilities from financial services	1,780,969	2,254,810
ba) repayable on demand	663,124	894,949
From this: – by affiliated undertaking	92	2,371
– by undertaking with which the credit institution is linked by virtue of participating	136	288
bb) maturity not more than one year	1,060,141	1,298,772
From this: – by affiliated undertaking	443	2,130
– by undertaking with which the credit institution is linked by virtue of participating	–	433
bc) maturity more than one year	57,704	61,089
c) liabilities from investment services	502	878
cc) liabilities from clients for investment service activities	502	878
3. LIABILITIES FROM ISSUED DEBT SECURITIES	102,689	136,661
a) issued bond	2,015	1,104
ab) maturity more than one year	2,015	1,104
From this: – by affiliated undertaking	0	3
b) issued other debt securities	40,338	79,766
ba) maturity not more than one year	338	10,885
From this: – by affiliated undertaking	0	10,000
bb) maturity more than one year	40,000	68,881
From this: – by affiliated undertaking	0	2,539
c) issued debt securities according to act on accounting, but the act on securities not qualifies that certificates as securities	60,336	55,791
ca) maturity not more than one year	56,185	18,444
cb) maturity more than one year	4,151	37,347

FINANCIAL REPORT

LIABILITIES	2002	2003
4. OTHER LIABILITIES	48,988	63,645
a) maturity not more than one year	48,564	60,942
From this: – by affiliated undertaking	778	237
– by undertaking with which the credit institution is linked by virtue of participating	8	0
a.1.) receivables of consolidated financial and investment service companies	41,800	50,880
a.2.) receivables of consolidated insurance companies	2,701	3,320
a.3.) receivables of consolidated other companies	4,063	6,742
b) maturity more than one year	24	2,530
b.1.) receivables of consolidated financial and investment service companies	–	2,530
b.3.) receivables of consolidated other companies	24	0
c) calculated income tax difference due to consolidation	400	173
5. ACCRUALS AND DEFERRED INCOME	27,227	37,089
a) accrued liabilities	2,560	2,442
b) accrued costs and expenses	24,627	34,607
c) deferred income	40	40
6. PROVISIONS	96,634	116,232
a) provisions for pensions and similar obligations	1,000	1,546
b) risk provision for off-balance sheet items (for pending and future liabilities)	4,346	5,492
c) general risk provision	15,294	20,738
d) other provision	75,994	88,456
d.1.) receivables of consolidated financial and investment service companies	7,001	3,481
d.2.) receivables of consolidated insurance companies	68,531	84,188
d.3.) receivables of consolidated other companies	462	787
7. SUBORDINATED LIABILITIES	19,779	19,720
a) subordinated loan capital	15,511	15,413
aa) capital consolidation difference	4,268	4,307
– from subsidiaries and joint undertaking companies	4,268	4,307
8. SUBSCRIBED CAPITAL	28,000	28,000
From this: – repurchased own shares at face value	2,334	2,115
9. SUBSCRIBED BUT UNPAID CAPITAL (–)	0	0
10. CAPITAL RESERVES	52	52
11. GENERAL RESERVES	34,170	41,325
12. RETAINED EARNINGS (ACCUMULATED PROFIT RESERVE) (+/–)	86,232	132,733
a) retained earnings	84,508	130,699
b) changes in equity of equity consolidated subsidiaries	1,724	2,034
13. LEGAL RESERVES	16,883	14,328
14. REVALUATION RESERVE	–	–
15. PROFIT OR LOSS FOR THE FINANCIAL YEAR ACCORDING TO THE BALANCE SHEET (+/–)	49,899	58,101

FINANCIAL REPORT

LIABILITIES	2002	2003
16. CHANGES IN EQUITY OF SUBSIDIARIES AND JOINT UNDERTAKING COMPANIES (+/-)	19,246	29,313
17. CHANGES DUE TO CONSOLIDATION (+/-)	2,770	851
– from debt consolidation	4,687	6,646
– from difference of intermediate results	– 1,917	– 5,795
18. SHARES OF OTHER OUTSIDE OWNERS	284	417
19. DIFFERENCE FROM EXCHANGE RATE		
TOTAL LIABILITIES	2,734,082	3,502,663
From this:		
– SHORT-TERM LIABILITIES	2,226,799	2,784,681
– LONG-TERM LIABILITIES	145,886	259,541
– EQUITY (CAPITAL AND RESERVES)	237,536	305,120
OFF-BALANCE SHEET COMMITMENTS	881,708	781,830
1. CONTINGENT LIABILITIES	641,127	505,365
2. FUTURE LIABILITIES	240,581	276,465
OFF-BALANCE SHEET ASSETS	444,142	314,482



PROFIT AND LOSS ACCOUNT

(consolidated, based on HAR) for the year ended December 31, 2003 in HUF mn

	2002	2003
1. Interest received and interest-type income	220,987	279,087
a) interest received on securities with fixed-interest signifying a creditor relationship	48,775	79,965
– from related companies	0	32
b) other interest received and interest-type income	172,212	199,122
– from related companies	976	1,560
– from other participation companies	725	818
2. Interest paid and interest-type expenses	97,574	102,025
Including: – to related companies	243	350
– to other participation companies	180	169
INTEREST DIFFERENCE (1–2)	123,413	177,062
3. Incomes from securities	458	668
a) from trading securities and participations (dividend, profit participation)	279	0
b) from related companies (dividend, profit participation)	177	522
c) from other participation companies (dividend, profit participation)	2	146
4. Fees and commission received	55,921	73,825
a) revenues from other financial services	53,005	70,427
– from related companies	37	47
– from other participation companies	2	3
b) revenues from investment services (except incomes from trading activities)	2,916	3,398
– from related companies	14	65
5. Fees and commission paid	10,609	15,620
a) expenses on other financial services	10,275	15,279
Including: – to related companies	445	688
– to other participation companies	3	115
b) expenses on investment services (except expenses from trading activities)	334	341
Including: – to related companies	46	0
6. Profit or loss from financial transactions [(6.a) – 6.b) + 6.c) – 6.d)]	3,289	– 5,854
a) revenues from other financial services	34,226	20,872
– from related companies	155	– 1,139
– from other participation companies	1	67
b) expenses on other financial services	29,751	26,328
– from related companies	1,414	– 3,712
– from other participation companies	1	1,695
c) revenues from investment services (revenues from trading activities)	6,802	11,920
– from related companies	153	45
d) expenses on investment services (expenses from trading activities)	7,988	12,318
Including: – to related companies	180	116
– to other participation companies	10	43

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	2002	2003
7. Other incomes from business	112,271	124,496
a) incomes from non financial and investment services	94,770	99,505
– from related companies	722	851
– from other participation companies	3	5
a.1.) income of consolidated investment service providers	20,506	12,230
a.2.) income of consolidated insurance companies	55,160	61,662
a.3.) income of other consolidated companies	19,104	25,613
b) other revenues	15,327	24,830
– from related companies	1,039	965
– reversal of write-off of inventory	66	7
b.1.) income of consolidated investment service providers	13,666	23,914
b.2.) income of consolidated insurance companies	97	107
b.3.) income of other consolidated companies	1,564	809
ba) consolidation difference income due to debtor consolidation	10	0
bb) other income due to consolidation	2,164	161
8. General administration expenses	76,334	94,632
a) personnel expenses	41,254	51,707
aa) wage costs	26,670	30,849
ab) other payments to personnel	4,220	8,156
Including: – social security expenses	2,312	2,971
– pension related expenses	2,018	2,183
ac) contributions on wages and salaries	10,364	12,702
Including: – social security expenses	8,997	10,763
– pension related expenses	4,704	5,986
b) other administration expenses	35,080	42,925
9. Depreciation and amortization	12,045	11,613
10. Other expenses from business	122,972	140,745
a) expenses from non-financial and investment services	58,048	52,013
Including: – to related companies	697	52
– to other participation companies	24	0
a.1.) expense of consolidated investment service providers	18,353	9,803
a.2.) expense of consolidated insurance companies	39,670	42,184
a.3.) expense of other consolidated companies	25	26
b) other expenses	37,408	50,339
Including: – to related companies	319	35
– write-off of inventory	–	49
b.1.) expense of consolidated investment service providers	34,785	48,585
b.2.) expense of consolidated insurance companies	422	541
b.3.) expense of other consolidated companies	2,201	1,213
ba) consolidation difference expense due to debtor consolidation	–	11
bb) other expense due to consolidation	60	2,378
c) expense of consolidated investment service providers	27,456	36,004
c.1.) expense of consolidated insurance companies	12,730	15,668
c.2.) expense of other consolidated companies	14,726	20,336

FINANCIAL REPORT

	2002	2003
11. Write-off of loans and provision for contingent and future liabilities	22,483	31,417
a) write-off of loans	19,123	27,314
b) provision for contingent and future liabilities	3,360	4,103
12. Reversal of write-off of loans and credit for contingent and future liabilities	19,042	27,012
a) reversal of write-off of loans	16,872	23,875
b) credit for contingent and future liabilities	2,170	3,137
13. Write-off of securities for investing purposes, signifying a creditor relationship, equity investments in associated or other company	320	183
14. Reversal of write-off of securities for investing purposes, signifying a creditor relationship, and equity investments in associated or other company	60	349
15. Result of ordinary business activities	69,691	103,348
Including:		
– RESULT OF FINANCIAL AND INVESTMENT SERVICES	61,387	92,698
– RESULT OF NON-FINANCIAL AND INVESTMENT SERVICES	8,304	10,650
16. Extraordinary revenues	53	141
17. Extraordinary expenses	1,569	738
18. Extraordinary profit or loss (16–17)	– 1,516	– 597
19. Profit or loss before tax (±15±18)	68,175	102,751
20. Tax liabilities	13,599	19,956
a) tax difference due to consolidation (+/-)	– 409	– 227
21. After-tax profit or loss (±19–20±20a)	54,985	83,022
22. Formation and utilization of general reserves (+/-)	– 5,086	– 8,128
23. Use of accumulated profit reserve for dividends and profit-sharing	0	0
24. Dividends and profit-sharing paid (approved)	0	16,793
25. Balance-sheet profit or loss figure (±21±22+23–24)	49,899	58,101

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INDEPENDENT AUDITORS' OPINION

To the Shareholders and Board of Directors of National Savings and Commercial Bank Ltd.

We have audited the accompanying unconsolidated balance sheets of National Savings and Commercial Bank Ltd. ("the Bank") as at December 31, 2003 and 2002, and the related unconsolidated statements of operations, cash flows and changes in shareholders' equity for the years then ended, included on pages 82 to 112 of this Annual Report. These unconsolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these unconsolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Consolidated financial statements have not been presented at the date of this report, as required by International Accounting Standard No. 27. We draw attention to Notes 2.3 and 2.7 to the unconsolidated financial statements, which explain why consolidated financial statements have not been presented and the method of accounting for unconsolidated subsidiaries, respectively.

In our opinion, except for the effects on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at December 31, 2003 and 2002, and the unconsolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Financial Reporting Standards.

Budapest, March 19, 2004


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Registered by the Budapest Court of Registration
Company Reg. No.: 01-09-071057



BALANCE SHEET

(unconsolidated, based on IFRS) as at December 31, 2003 in HUF mn

	2003	2002
Cash, due from banks and balances with the National Bank of Hungary	252,975	348,424
Placements with other banks, net of allowance for possible placement losses	165,209	277,627
Securities held-for-trading and available-for-sale	312,395	204,408
Loans, net of allowance for possible loan losses	1,070,425	994,994
Accrued interest receivable	31,792	23,407
Equity investments	138,808	48,888
Debt securities held-to-maturity	625,309	362,045
Premises, equipment and intangible assets, net	86,400	71,305
Other assets	48,315	58,908
TOTAL ASSETS	2,731,628	2,390,006
Due to banks and deposits from the National Bank of Hungary and other banks	91,081	46,401
Deposits from customers	2,264,528	2,045,653
Liabilities from issued securities	2,039	2,054
Accrued interest payable	7,895	7,479
Other liabilities	74,496	69,433
Subordinated bonds and loans	15,413	15,511
TOTAL LIABILITIES	2,455,452	2,186,531
Share capital	28,000	28,000
Retained earnings and reserves	262,504	192,358
Treasury shares	– 14,328	– 16,883
TOTAL SHAREHOLDERS' EQUITY	276,176	203,475
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,731,628	2,390,006

The accompanying notes to unconsolidated financial statements on pages 86 to 112 form an integral part of these unconsolidated financial statements.



PROFIT AND LOSS ACCOUNT

(unconsolidated, based on IFRS) for the year ended December 31, 2003 in HUF mn

	2003	2002
INTEREST INCOME		
Loans	103,415	106,555
Placements with other banks	20,350	26,473
Due from banks and balances with the National Bank of Hungary	17,148	18,488
Securities held-for-trading and available-for-sale	19,553	11,075
Debt securities held-to-maturity	43,779	32,540
<i>TOTAL INTEREST INCOME</i>	<i>204,245</i>	<i>195,131</i>
INTEREST EXPENSE		
Due to banks and deposits from the National Bank of Hungary and other banks	16,508	4,189
Deposits from customers	75,311	80,988
Liabilities from issued securities	169	74
Subordinated bonds and loans	748	963
<i>TOTAL INTEREST EXPENSE</i>	<i>92,736</i>	<i>86,214</i>
NET INTEREST INCOME	111,509	108,917
Provision for possible loan and placement losses	7,053	6,214
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES	104,456	102,703
NON-INTEREST INCOME		
Fees and commissions	95,850	64,741
Foreign exchange gains and losses, net	5,903	– 3,400
Gains and losses on securities, net	– 8,909	2,600
Gains and losses on real estate transactions, net	– 35	– 14
Dividend income	7,691	332
Other	3,266	3,989
<i>TOTAL NON-INTEREST INCOME</i>	<i>103,766</i>	<i>68,248</i>
NON-INTEREST EXPENSES		
Fees and commissions	11,067	7,854
Personnel expenses	43,555	37,571
Depreciation and amortization	12,745	13,085
Other	56,327	49,440
<i>TOTAL NON-INTEREST EXPENSE</i>	<i>123,694</i>	<i>107,950</i>
INCOME BEFORE INCOME TAXES	84,528	63,001
Income taxes	14,387	11,100
NET INCOME AFTER INCOME TAXES	70,141	51,901
Earnings per share (in HUF)		
basic	261	197
diluted	260	196

The accompanying notes to unconsolidated financial statements on pages 86 to 112 form an integral part of these unconsolidated financial statements.



STATEMENT OF CASH FLOW

(unconsolidated, based on IFRS) for the year ended December 31, 2003 in HUF mn

	2003	2002
OPERATING ACTIVITIES		
Profit before tax	84,528	63,001
<i>Adjustments to reconcile profit before tax to net cash provided by operating activities:</i>		
Income tax paid	– 15,817	– 11,873
Depreciation and amortization	12,745	13,085
Provision for possible loan and placement losses	7,053	6,214
(Credit)/provision for permanent diminution in value equity investments	– 111	555
(Credit)/provision for possible losses of other assets	– 205	749
Provision for possible losses on off-balance sheet commitments and contingent liabilities, net	3,705	2,066
Unrealised losses/(gains) on fair value adjustment of securities held-for-trading and available-for-sale	8,454	– 2,949
Unrealised losses/(gains) on fair value adjustment of derivative financial instruments	2,889	– 5,610
<i>Changes in operating assets and liabilities:</i>		
Net (increase)/decrease in accrued interest receivable	– 8,385	3,592
Net decrease/(increase) in other assets, excluding advances for investments and before provisions for possible losses	4,372	– 32,086
Net increase/(decrease) in accrued interest payable	416	– 1,291
Net increase in other liabilities	6,387	15,115
Net cash provided by operating activities	106,031	50,568
INVESTING ACTIVITIES		
Net decrease in placements with other banks, before provision for possible placement losses	112,399	49,210
Net increase in securities held-for-trading or available-for-sale before unrealised gains/lower of cost and market adjustment	– 116,441	– 95,204
Net increase in equity investments, before provision for permanent diminution in value	– 89,809	– 16,268
Net (increase)/decrease in securities held-to-maturity	– 263,264	36,701
Net (increase)/decrease in advances for investments included in other assets	– 53	21
Net increase in loans, before provision for possible loan losses	– 82,465	– 241,051
Net additions to premises, equipment and intangible assets	– 27,840	– 27,663
Net cash used in investing activities	– 467,473	– 294,254

FINANCIAL REPORT

	2003	2002
FINANCING ACTIVITIES		
Net increase in due to banks and deposits from the National Bank of Hungary and other banks	44,680	21,268
Net increase in deposits from customers	218,875	202,931
Net (decrease)/increase in liabilities from issued securities	– 15	1,498
Decrease in subordinated bonds and loans	– 98	– 1,782
Net change in treasury shares	2,560	– 235
Net (increase)/decrease in the compulsory reserve established by the National Bank of Hungary	– 16,465	14,470
Dividends paid	– 9	– 7,110
Net cash provided by financing activities	249,528	231,040
Net decrease in cash and cash equivalents	– 111,914	– 12,646
<i>Cash and cash equivalents as at January 1</i>	<i>255,357</i>	<i>268,003</i>
Cash and cash equivalents balance as at December 31	143,443	255,357
Analysis of cash and cash equivalents		
Cash, due from banks and balances with the National Bank of Hungary	348,424	375,540
Compulsory reserve established by the National Bank of Hungary	– 93,067	– 107,537
Cash and cash equivalents as at January 1	255,357	268,003
Cash, due from banks and balances with the National Bank of Hungary	252,975	348,424
Compulsory reserve established by the National Bank of Hungary	– 109,532	– 93,067
Cash and cash equivalents as at December 31	143,443	255,357

The accompanying notes to unconsolidated financial statements on pages 86 to 112 form an integral part of these unconsolidated financial statements.



STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unconsolidated, based on IFRS) for the year ended December 31, 2003 in HUF mn

	Share Capital	Retained Earnings and Reserves	Treasury Share	Total
Balance as at January 1, 2002	28,000	141,559	- 17,750	151,809
Net income after income taxes	-	51,901	-	51,901
Loss on sale of treasury shares	-	- 1,102	-	- 1,102
Change in carrying value of treasury shares	-	-	867	867
Balance as at December 31, 2002	28,000	192,358	- 16,883	203,475
Net income after income taxes	-	70,141	-	70,141
Gain on sale of treasury shares	-	5	-	5
Change in carrying value of treasury shares	-	-	2,555	2,555
Balance as at December 31, 2003	28,000	262,504	- 14,328	276,176

The accompanying notes to unconsolidated financial statements on pages 86 to 112 form an integral part of these unconsolidated financial statements.



NOTES TO FINANCIAL STATEMENTS

(unconsolidated, based on IFRS)

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. GENERAL

National Savings and Commercial Bank Ltd. (the "Bank" or "OTP") was established on December 31, 1990, when the predecessor State-owned company was transformed into a limited liability company. The Bank's registered office address is 16, Nador street, Budapest 1051.

As at December 31, 1994, 79% of the Bank's shares were held directly or indirectly by the Hungarian Government and the remaining 21% were held by domestic investors or represented as own shares (less than 3%). In spring 1995, the Hungarian Government transferred 20% of the Bank's shares to the Hungarian Social Security Funds. Subsequent to the successful initial public offering in summer 1995, the Bank's shares were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London and PORTAL (USA).

At an extraordinary General Assembly on September 3, 1997, the Bank issued a preferential voting share with a nominal value of HUF 1 thousand (the "Special Share") to the State Privatization and Holding Company. The Special Share gives the power to the State Privatization and Holding Company to control the outcome of certain shareholder votes in accordance with the Bank's Articles of Association and the right to delegate one member to the Bank's Board of Directors and one member to the Supervisory Board of the Bank.

By public offerings in fall 1997 and fall 1999, the State Privatization and Holding Company sold the remaining common shares.

The Annual General Meeting on April 25, 2001 approved the conversion of HUF 1,150 million nominal value preference shares issued by the Bank to common shares.



FINANCIAL REPORT

In the first quarter of the year of 2002 the nominal value of the common shares of the Bank decreased from HUF 1,000 to HUF 100 per share.

As at December 31, 2003 approximately 92.4% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (2.9%) and the Bank (4.7%).

The Bank provides a full range of commercial banking services through a nationwide network of 432 branches in Hungary.

As at December 31, 2003 the number of employees at the Bank was 7,986. The average number of employees for the year ended December 31, 2003 was 8,495.

1.2. ACCOUNTING

The Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The Bank's functional currency is the Hungarian Forint ("HUF").

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to the Bank's Hungarian unconsolidated statutory accounts (see Note 31), in order to present the unconsolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying unconsolidated financial statements are summarized below:

2.1. BASIS OF PRESENTATION

These unconsolidated financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded on fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

2.2. FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as of the date of the financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the Unconsolidated Statement of Operations.

2.3. CONSOLIDATED FINANCIAL STATEMENTS

These financial statements present the Bank's unconsolidated financial position and results of operations. Consolidated financial statements are currently being prepared by the Bank. See Note 2.7 for the description of the method of accounting for investments in subsidiaries and associated companies in these unconsolidated financial statements.

FINANCIAL REPORT

2.4. SECURITIES HELD-TO-MATURITY

Investments in securities are accounted on a settlement date basis and are initially measured at cost. At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investment.

Held-to-maturity investments include securities, which the Bank is able and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government and mortgage bonds.

2.5. SECURITIES HELD-FOR-TRADING AND AVAILABLE-FOR-SALE

Investments in securities are accounted on a settlement date basis and are initially measured at cost. Held-for-trading and available-for-sale investments are measured at subsequent reporting dates at fair value and unrealised gains and losses are included in the Unconsolidated Statement of Operations for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, bonds issued by NBH, and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies, foreign government bonds and mortgage bonds.

Available-for-sale securities are remeasured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the user.

Those held-for-trading and available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less allowance for permanent diminution in value, when appropriate.

2.6. LOANS, PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR POSSIBLE LOAN AND PLACEMENT LOSSES

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for possible loan or placement losses, respectively. Interest is accrued and credited to income based on the principal amounts outstanding. When a borrower is unable to meet payments as they come due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they come due, all unpaid interest is reversed. Loan origination fees and costs are recognized in the Unconsolidated Statement of Operations in full at the time of the loan origination.

The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

The allowances for possible loan and placement losses are maintained at levels adequate to absorb probable future losses. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.

FINANCIAL REPORT

2.7. EQUITY INVESTMENTS

Investments comprise equity investments and equity securities. Equity investments with a controlling or significant interest include investments in companies in which the Bank holds an equity share of 10% or more and investments made for strategic, regulatory or operational purposes. Equity investments representing a controlling interest comprise those investments where the Bank, through direct and indirect ownership interest, has the power to govern the financial and operating policies of the investee. Equity investments representing a significant interest comprise those investments where the Bank, through direct and indirect ownership interest, has the power to participate in the financial and operating policies of the investee but not to control those activities. Other equity securities comprise shareholdings, which do not meet the preceding criteria.

Investments are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate.

2.8. SALE AND REPURCHASE AGREEMENTS

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in Other liabilities. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Other assets. Interest is accrued evenly over the life of the repurchase agreement.

2.9. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

Premises, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Buildings	1–2%
Machinery and equipment	8–33.3%
Leased assets	16.7–33.3%
Vehicles	15–20%
Software	20–33.3%
Property rights	16.7%

Depreciation and amortization on premises, equipment and intangible assets commences on the day such assets are placed into service.

At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of premises, equipment and other tangible fixed assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

2.10. LEASES

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Unconsolidated Statement of Operations over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

FINANCIAL REPORT

Payments made under operating leases are charged to the Unconsolidated Statement of Operations on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.11. TREASURY SHARES

Treasury shares are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the Unconsolidated Balance Sheet at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of treasury shares are credited or charged directly to retained earnings and reserves.

2.12. INCOME TAXES

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is accounted for, using the balance sheet liability method in respect of temporary differences in the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted at the date of the Unconsolidated Balance Sheet.

2.13. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The allowance for possible losses on commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognises an allowance when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.14. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements. These financial instruments are used by the Bank to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are initially recognised at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Unconsolidated Statement of Operations as they arise. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit Unconsolidated Statement of Operations along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Unconsolidated Statement of Operations.

FINANCIAL REPORT

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the reserve among shareholders' equity. Amounts deferred in equity are transferred to the Unconsolidated Statement of Operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the result for the period. The ineffective element of the hedge is charged directly to the Unconsolidated Statement of Operations.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held-for-trading with fair value gains and losses charged directly to the Unconsolidated Statement of Operations.

2.15. UNCONSOLIDATED STATEMENT OF CASH FLOWS

For the purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and balances with the National Bank of Hungary, excluding compulsory reserve established by the National Bank of Hungary. Cash flows from hedging activities are classified in the same category as the item being hedged.

2.16. COMPARATIVE FIGURES

Certain amounts in the 2002 unconsolidated financial statements have been reclassified to conform with the current year presentation.

NOTE 3: CASH, DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY

		<i>(in HUF mn)</i>	
		2003	2002
Cash on hand:	In HUF	54,918	39,460
	In foreign currency	3,111	3,570
		58,029	43,030
Due from banks and balances with NBH:			
Within one year:	In HUF	191,911	301,709
	In foreign currency	3,035	3,251
		194,946	304,960
Over one year:	In foreign currency	–	434
		–	434
Total		252,975	348,424

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the balance of compulsory reserves amounted to approximately HUF 109,532 million and HUF 93,067 million as at December 31, 2003 and 2002, respectively.

FINANCIAL REPORT

NOTE 4: PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR POSSIBLE PLACEMENT LOSSES

		2003	(in HUF mn) 2002
Within one year:	In HUF	85,141	146,576
	In foreign currency	69,719	117,192
		154,860	263,768
Over one year:	In HUF	3,300	8,300
	In foreign currency	7,231	5,722
		10,531	14,022
Total		165,391	277,790
Allowance for possible placement losses		- 182	- 163
		165,209	277,627

Placements with other banks in foreign currency as at December 31, 2003 and 2002 bear interest rates in the range from 0.3% to 5.1% and from 0.1% to 9.2%, respectively.

Placements with other banks in HUF as at December 31, 2003 and 2002 bear interest rates in the range from 9.6% to 13.7% and from 7.5% to 11.2%, respectively.

An analysis of the change in the allowance for possible placement losses is as follows

	2003	(in HUF mn) 2002
Balance as at January 1	163	170
Provision/(credit) for possible placement losses	19	- 7
Balance as at December 31	182	163

NOTE 5: SECURITIES HELD-FOR-TRADING AND AVAILABLE-FOR-SALE

	2003	(in HUF mn) 2002
Securities held-for-trading		
Hungarian Government discounted Treasury bills	2,632	4,996
Hungarian Government interest bearing Treasury bills	473	1,945
Government bonds	42,331	10,002
Mortgage bonds	4,260	-
Other securities	257	1,148
	49,953	18,091
Securities available-for-sale		
Government bonds	56,336	38,881
Hungarian Government discounted Treasury bills	20,293	-
Mortgage bonds	156,929	125,244
Other securities	28,884	22,192
	262,442	186,317
Total	312,395	204,408

FINANCIAL REPORT

Approximately 93% and 90% of the held-for-trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2003 and 2002, respectively.

Approximately 2% and 10% of the government bonds were denominated in foreign currency as at December 31, 2003 and 2002. Approximately 75%, 2%, 15%, 8% of this portfolio was denominated in JPY, EUR, GBP, USD as at December 31, 2003 and 37%, 1%, 8% and 54% of this portfolio was denominated in JPY, EUR, GBP, USD as at December 31, 2002, respectively.

Interest rates on securities held-for-trading ranged from 2.1% to 13.1% and from 2.3% to 10.5% as at December 31, 2003 and 2002, respectively.

Interest conditions and the remaining maturities of held-for-trading and available-for-sale securities can be analysed as follows:

	2003	(in HUF mn) 2002
Within five years:		
variable interest	91,041	42,837
fixed interest	141,561	15,260
	232,602	58,097
Over five years:		
variable interest	21,489	29,772
fixed interest	50,169	105,193
	71,658	134,965
Non interest-bearing securities	8,135	11,346
Total	312,395	204,408

NOTE 6: LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES

	2003	(in HUF mn) 2002
Short-term loans and trade bills (within one year)	406,091	381,364
Long-term loans and trade bills (over one year)	682,970	632,048
	1,089,061	1,013,412
Allowance for possible loan losses	- 18,636	- 18,418
	1,070,425	994,994

Foreign currency loans represent approximately 29% and 21% of the loan portfolio, before allowance for possible losses, as at December 31, 2003 and 2002, respectively.

Loans denominated in HUF, with a maturity within one year as at December 31, 2003 and 2002 bear interest rates in the range from 15.8% to 32% and from 12.3% to 33% respectively.

Loans denominated in HUF, with a maturity over one year as at December 31, 2003 and 2002 bear interest rates in the range from 4% to 22.8% and from 4% to 19.8%, respectively.

Approximately 1.6% and 1.7% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2003 and 2002, respectively.

FINANCIAL REPORT

An analysis of the loan portfolio by type, before allowances for possible loan losses, is as follows:

	2003		(in HUF mn) 2002	
Commercial loans	678,986	62%	555,099	55%
Municipality loans	91,529	8%	128,057	13%
Housing loans	182,640	17%	212,150	20%
Consumer loans	135,906	13%	118,106	12%
	1,089,061	100%	1,013,412	100%

An analysis of the change in the allowance for possible loan losses is as follows:

	2003	(in HUF mn) 2002
Balance as at January 1	18,418	19,540
Provision for possible loan losses	7,034	6,221
Write-offs	- 6,816	- 7,343
Balance as at December 31	18,636	18,418

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd., see Note 23.

NOTE 7: EQUITY INVESTMENTS

	2003	(in HUF mn) 2002
Equity investments:		
Controlling interest	143,158	51,051
Significant interest	371	2,623
Other	949	995
	<i>144,478</i>	<i>54,669</i>
Allowance for permanent diminution in value	- 5,670	- 5,781
	138,808	48,888

Equity investments in companies in which the Bank has a controlling interest are detailed below. All companies are incorporated in Hungary unless indicated otherwise.

	2003		(in HUF mn) 2002	
	% Held (direct and indirect)	Cost	% Held (direct and indirect)	Cost
OTP-Garancia Insurance Ltd.	100.00%	7,472	100.00%	7,472
OTP Real Estate Ltd.	100.00%	1,228	100.00%	1,228
OTP Mérleg Ltd.*	100.00%	750	100.00%	750
Merkantil Bank Rt.	100.00%	1,600	100.00%	1,600
OTP Building Society Ltd.	100.00%	1,950	100.00%	1,950

* OTP Securities Ltd. was renamed to OTP Mérleg Ltd. on March 11, 2003.

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(Continued from page 94)

	2003		2002		<i>(in HUF mn)</i>
	% Held <i>(direct and indirect)</i>	Cost	% Held <i>(direct and indirect)</i>	Cost	
HIF Ltd. (United Kingdom)	100.00%	1,132	100.00%	1,132	
Bank Center No. 1. Ltd.	100.00%	9,364	100.00%	9,364	
OTP Factoring Ltd.	100.00%	150	100.00%	150	
INGA One Ltd.	100.00%	407	100.00%	407	
INGA Two Ltd.	100.00%	5,892	100.00%	5,892	
OTP Fund Servicing and Consulting Ltd.	100.00%	1,317	100.00%	1,317	
OTP Fund Management Ltd.	100.00%	1,653	100.00%	1,653	
OTP Mortgage Bank Company Ltd.	100.00%	20,000	100.00%	7,100	
AIR-Invest Ltd.	100.00%	1,000	100.00%	1,000	
DSK Bank EAD (Bulgaria)	100.00%	79,162	–	–	
OTP Banka Slovensko a.s. (Slovakia)	97.10%	10,006	96.86%	9,970	
Other	–	75	–	66	
Total		143,158		51,051	

On October 1, 2003, the Bank completed the acquisition of DSK Bank EAD, a leading universal bank in Bulgaria with total assets of approximately HUF 306,615 million in accordance with Bulgarian Accounting Standards.

An analysis of the change in the allowance for permanent diminution in value is as follows:

	2003	2002	<i>(in HUF mn)</i>
Balance as at January 1	5,781	5,226	
(Credit)/provision for permanent diminution in value	– 111	555	
Balance as at December 31	5,670	5,781	

NOTE 8: HELD-TO-MATURITY INVESTMENTS

	2003	2002	<i>(in HUF mn)</i>
Government securities	276,892	345,024	
Hungarian Government discounted Treasury bills	987	3,689	
Mortgage bonds	346,130	12,032	
Other debt securities	1,300	1,300	
	625,309	362,045	

Interest conditions and the remaining maturities of held-to-maturity investments can be analysed as follows

	2003	2002	<i>(in HUF mn)</i>
Within five years: variable interest	90,234	127,014	
fixed interest	351,908	145,809	
	442,142	272,823	

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<i>(Continued from page 95)</i>	2003	<i>(in HUF mn)</i> 2002
Over five years: variable interest	43,995	47,333
fixed interest	139,172	41,889
	<i>183,167</i>	<i>89,222</i>
Total	625,309	362,045

A portfolio of mortgage bonds with a fair value of HUF 216,957 million issued by OTP Mortgage Bank Company Ltd. were reclassified as of June 30, 2003 from available-for-sale to the held-to-maturity as management decided and has the intention to hold such securities until maturity.

Approximately 99.7% and 98.6% of the debt securities portfolio was denominated in HUF as at December 31, 2003 and 2002, respectively. In most cases, interest on variable rate securities is based on the interest rates of 90 day Hungarian Government Treasury bills and is adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF ranged from 6.3% to 10.5% and from 6.3% to 13% as at December 31, 2003 and 2002, respectively.

Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

The fair value of held-to maturity investments was HUF 610,189 million and HUF 367,644 million as at December 31, 2003 and 2002, respectively.

NOTE 9: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS *(in HUF mn)*

For the year ended December 31, 2003:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
<i>Cost</i>					
Balance as at January 1, 2003	32,655	37,241	54,609	6,951	131,456
Additions	17,190	12,325	11,251	19,630	60,396
Disposals	– 19,165	– 200	– 3,408	– 22,209	– 44,982
Balance as at December 31, 2003	30,680	49,366	62,452	4,372	146,870
<i>Depreciation and Amortization</i>					
Balance as at January 1, 2003	18,862	5,475	35,814	–	60,151
Additions	4,998	940	6,807	–	12,745
Disposals	– 9,030	– 46	– 3,350	–	– 12,426
Balance as at December 31, 2003	14,830	6,369	39,271	–	60,470
<i>Net book value</i>					
Balance as at January 1, 2003	13,793	31,766	18,795	6,951	71,305
Balance as at December 31, 2003	15,850	42,997	23,181	4,372	86,400

For the year ended December 31, 2002:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
<i>Cost</i>					
Balance as at January 1, 2002	26,197	33,982	50,319	2,942	113,440
Additions	18,545	3,397	13,423	15,027	50,392
Disposals	– 12,087	– 138	– 9,133	– 11,018	– 32,376
Balance as at December 31, 2002	32,655	37,241	54,609	6,951	131,456

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<i>(Continued from page 96)</i>	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
<i>Depreciation and Amortization</i>					
Balance as at January 1, 2002	14.331	4.709	37.673	–	56.713
Additions	5.590	794	6.701	–	13.085
Disposals	– 1.059	– 28	– 8.560	–	– 9.647
Balance as at December 31, 2002	18.862	5.475	35.814	–	60.151
<i>Net book value</i>					
Balance as at January 1, 2002	11.866	29.273	12.646	2.942	56.727
Balance as at December 31, 2002	13.793	31.766	18.795	6.951	71.305

NOTE 10: OTHER ASSETS

	2003	<i>(in HUF mn)</i> 2002
Receivables due to collection of Hungarian Government securities	69	45
Property held-for-sale	307	455
Due from Government for interest subsidies	1,885	876
Trade receivables	1,716	2,740
Advances for securities and investments	528	475
Deferred tax assets	559	–
Taxes recoverable	821	278
Inventories	736	724
Other advances	327	334
Credits sold under deferred payment scheme	4,453	5,931
Loans sold under deferred payment scheme to OTP Mortgage Bank Company Ltd.	28,186	15,947
Margin account balance	–	240
Accounts with investment funds and pension funds	–	12,014
Settlement accounts	6	925
Receivables from investing services	1,139	2,335
Prepayments and accrued incomes	3,935	2,843
Fair value of derivative financial instruments	1,990	8,469
Other	3,871	6,695
	50,528	61,326
Allowance for possible losses on other assets	– 2.213	– 2.418
	48,315	58,908

Allowance for possible losses on other assets mainly consists of allowances for property held-for-sale, credits sold under deferred payment scheme and allowances for trade receivables.

An analysis of the change in the allowance for possible losses on other assets is as follows:

	2003	<i>(in HUF mn)</i> 2002
Balance as at January 1	2,418	1,669
(Credit)/provision for possible losses	– 205	749
Balance as at December 31	2,213	2,418

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NOTE 11: DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS

		<i>(in HUF mn)</i>	
		2003	2002
Within one year:	In HUF	7,478	29,920
	In foreign currency	22,690	7,100
		<i>30,168</i>	<i>37,020</i>
Over one year:	In HUF	4,291	4,774
	In foreign currency	56,622	4,607
		<i>60,913</i>	<i>9,381</i>
Total		91,081	46,401

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2003 and 2002, bear interest rates in the range from 11.4% to 12.9% and from 7.5% to 9.7%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at December 31, 2003 and 2002, bear interest rates in the range from 3% to 9.4% and from 9% to 9.5% respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at December 31, 2003 and 2002, bear interest rates in the range from 0.3% to 2.7% and from 0.7% and 7.2%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at December 31, 2003 and 2002, bear interest rates in the range from 0.5% to 4.7% and from 1.4% and 9.2%, respectively.

NOTE 12: DEPOSITS FROM CUSTOMERS

		<i>(in HUF mn)</i>	
		2003	2002
Within one year:	In HUF	1,947,081	1,740,583
	In foreign currency	279,332	293,597
		<i>2,226,413</i>	<i>2,034,180</i>
Over one year:	In HUF	38,115	11,473
		<i>38,115</i>	<i>11,473</i>
Total		2,264,528	2,045,653

Deposits from customers payable in HUF within one year as at December 31, 2003 and 2002, bear interest rates in the range from 0.8% to 11% and from 0.5% to 8%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2003 and 2002, bear interest rates in the range from 5.3% to 8.8% and from 5% to 7.6%, respectively.

Deposits from customers payable in foreign currency as at December 31, 2003 and 2002, bear interest rates in the range from 0.1% to 4.1% and from 0.1% to 1.6%, respectively.

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An analysis of deposits from customers by type, is as follows:

	2003		(in HUF mn) 2002	
Commercial deposits	440,034	20%	361,749	18%
Municipality deposits	164,571	7%	152,590	7%
Consumer deposits	1,659,923	73%	1,531,314	75%
	2,264,528	100%	2,045,653	100%

NOTE 13: LIABILITIES FROM ISSUED SECURITIES

	2003	(in HUF mn) 2002
With original maturity:		
Within one year	238	338
Over one year	1,801	1,716
	2,039	2,054

Liabilities from issued securities are denominated in HUF at interest rates in the range from 2% to 4.3% and from 2% to 6.3% as at December 31, 2003 and 2002, respectively.

NOTE 14: OTHER LIABILITIES

	2003	(in HUF mn) 2002
Taxes payable	2,044	1,608
Deferred tax liabilities	–	193
Giro clearing accounts	12,604	23,541
Accounts payable	8,145	5,656
Salaries and social security payable	5,882	6,153
Liabilities from security trading	15,852	5,431
Allowances for possible losses on off-balance sheet commitments, contingent liabilities	9,041	5,488
Margin account balance	34	–
Dividends payable	639	649
Accrued expenses	8,484	4,692
Suspense accounts	2,083	2,543
Loans for collection	2,202	1,567
Fair value of derivative financial instruments	90	3,680
Other	7,396	8,232
	74,496	69,433

The allowances for possible losses on off-balance sheet commitments and contingent liabilities are detailed as follows:

	2003	(in HUF mn) 2002
Allowance for litigation	1,509	1,591
Allowance for other off-balance sheet commitments, contingent liabilities	5,785	2,140
Other allowances for expected liabilities	1,671	1,529
Allowance for housing warranties	76	228
Total	9,041	5,488

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The allowance for possible losses on other off-balance sheet commitments and contingent liabilities primarily relates to commitments stemming from guarantees and credit lines issued by the Bank.

As part of its operations, until 1991, the Bank financed and constructed residential accommodations for resale on which it was required to provide a ten year guarantee against defective workmanship. The Bank has recourse against the constructors for any claims. The recovery of such claims is, however, dependent upon the financial status of the constructors, which is impaired in certain cases. An allowance has been recorded to account for the estimated possible future losses due to housing warranties.

Movements in the allowance for possible losses on commitments and contingent liabilities can be summarized as follows:

	2003	2002
		<i>(in HUF mn)</i>
Balance as at January 1	5,488	3,491
Provision for off-balance sheet commitments and contingent liabilities, net	3,705	2,066
Release of allowance for housing warranties	- 152	- 69
Balance as at December 31	9,041	5,488

NOTE 15: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 4.36% as at December 20, 2002, 3.25% as at June 20, 2003, and 4.8% as at December 20, 2003. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

In December 1996, the Bank obtained a USD 30 million and DEM 31.14 million (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development with the original maturity of December 27, 2006. The maturity date was modified to August 27, 2008 on August 22, 2003. The loan is unsecured, subordinate to the other liabilities and has a twelve-year maturity, with interest payable at six-month LIBOR + 1.4% from December 27, 1996 until December 29, 1997, at six-month LIBOR + 1.0% from December 29, 1997 until June 28, 1999, at six-month LIBOR + 1.7% from June 28, 1999 until December 27, 2003 and at six-month LIBOR + 1.35% from December 28, 2003 until August 27, 2008.

NOTE 16: SHARE CAPITAL

	2003	2002
		<i>(in HUF mn)</i>
Authorized, issued and fully paid:		
Common shares	28,000	28,000
	28,000	28,000

From September 3, 1997, the Bank has one preferential voting share (the "Special Share") outstanding with a nominal value of HUF 1 thousand (see Note 1.1).

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NOTE 17: RETAINED EARNINGS AND RESERVES

	2003	2002 <i>(in HUF mn)</i>
Balance as at January 1	192,358	141,559
Net income after income taxes	70,141	51,901
Gain/(loss) on sale of Treasury Shares	5	– 1,102
Balance as at December 31	262,504	192,358

The Bank's reserves under Hungarian Accounting Standards were HUF 234,415 million and HUF 177,843 million as at December 31, 2003 and 2002, respectively. Of these amounts, legal reserves represent HUF 41,326 million and HUF 34,169 million as at December 31, 2003 and 2002, respectively. The legal reserves are not available for distribution.

The Annual General Meeting on April 25, 2003 decided that the Bank would not pay a dividend for the year ended December 31, 2002.

Dividends for the year ended December 31, 2003 will be proposed at the Annual General Meeting in April 2004. The proposed dividend for the year 2003 is HUF 16,800 million.

NOTE 18: TREASURY SHARES

	2003	2002 <i>(in HUF mn)</i>
Nominal Value	1,324	1,543
Carrying Value at acquisition cost	14,328	16,883

NOTE 19: OTHER EXPENSES

	2003	2002 <i>(in HUF mn)</i>
(Credit)/provision for permanent diminution in value of equity investments	– 111	555
(Credit)/provision for other assets	– 205	749
Provision for possible losses on off-balance sheet commitments, contingent liabilities	3,705	2,066
Administration expenses, including rent	18,329	17,960
Advertising	3,406	3,024
Taxes, other than income	11,184	7,864
Services	15,062	11,758
Professional fees	2,305	2,586
Other	2,652	2,878
	56,327	49,440

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NOTE 20: INCOME TAXES

The Bank is presently liable for income tax at a rate of 18% of taxable income.

Deferred tax is calculated at 16%, which is the income tax rate effect from January 1, 2004.

A reconciliation of the income tax is as follows:

	<i>(in HUF mn)</i>	
	2003	2002
Current tax	15,139	10,885
Deferred tax	– 752	215
	14,387	11,100

A reconciliation of the deferred tax asset/(liability) is as follows:

	<i>(in HUF mn)</i>	
	2003	2002
Balance as at January 1	– 193	22
Deferred tax charge/(credit)	752	– 215
Balance as at December 31	559	– 193

A reconciliation of the income tax charge is as follows:

	<i>(in HUF mn)</i>	
	2003	2002
Net income before income taxes	84,528	63,001
Permanent differences due to movements in statutory provisions	– 1,360	– 3,033
Dividend income	– 7,691	– 332
Other permanent differences	3,929	2,030
Adjusted tax base	79,406	61,666
Income tax	14,387	11,100

NOTE 21: FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

CREDIT RISK

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

MARKET RISK

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

LIQUIDITY RISK

See Note 27.

FOREIGN CURRENCY RISK

See Note 28.

INTEREST RATE RISK

See Note 29.

NOTE 22: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

a) CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(in HUF mn)</i>	
	2003	2002
Commitments to extend credit	392,308	314,127
Guarantees arising from banking activities	65,010	47,401
Confirmed letters of credit	956	787
Other	24,502	20,051
Legal disputes	2,469	4,846
	485,245	387,212

COMMITMENTS TO EXTEND CREDIT, FROM GUARANTEES AND LETTERS OF CREDIT

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

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Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

LEGAL DISPUTES

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings correspond to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

b) DERIVATIVES (nominal amount, unless otherwise stated)

	2003	2002
	<i>(in HUF mn)</i>	
Foreign currency contracts		
Assets	55,164	55,869
Liabilities	56,691	58,743
Net	- 1,527	- 2,874
Net fair value	- 235	- 4,181
Foreign exchange swaps and interest rate swaps		
Assets	230,852	161,347
Liabilities	216,839	150,126
Net	14,013	11,221
Net fair value	14,711	17,210
Option contracts		
Assets	25,402	183,322
Liabilities	18,184	164,658
Net	7,218	18,664
Net fair value	7,128	18,805
Forward rate agreements		
Assets	-	41,700
Liabilities	-	26,500
Net	-	15,200
Net fair value	-	15,166

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The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except of trading with clients, where the Bank in most of the cases requires margin deposits.

As at December 31, 2003, the Bank has derivative instruments with positive fair values of HUF 1,990 million and negative fair values of HUF 90 million. Positive fair values of derivative instruments are included in other assets, while negative fair values of derivative instruments are included in other liabilities. Corresponding figures as at December 31, 2002 are HUF 8,469 million and HUF 3,680 million.

FOREIGN CURRENCY CONTRACTS

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

FOREIGN EXCHANGE SWAPS AND INTEREST RATE SWAPS

The Bank enters into foreign-exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning to the swap of certain financial instruments, which usually consist of a prompt and one or more futures contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counter-parties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

FORWARD RATE AGREEMENTS

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

For an analysis of the allowance for possible losses on off balance sheet commitments and contingent liabilities, see Note 14.



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NOTE 23: RELATED PARTY TRANSACTIONS

Transactions with related parties, other than increases in share capital, are summarized below:

During the years ended December 31, 2003 and 2002 the Bank sold, without recourse, non-performing loans and the related accrued interest receivable to OTP Factoring for HUF 3,634 million and HUF 4,961 million, respectively. The gross book value of such credits was HUF 10,043 million and HUF 12,238 million, respectively, with a corresponding allowance for possible loan losses of HUF 5,503 million and HUF 9,603 million, respectively. The underlying mortgage rights were also transferred to OTP Factoring. Gains or losses related to such transactions are included in the unconsolidated financial statements.

Commissions received by the Bank from OTP Building Society in relation to finalised customer contracts were HUF 924 million and HUF 481 million for the years ended December 31, 2003 and 2002, respectively.

Insurance premiums paid by the Bank to OTP Garancia Insurance were HUF 1,054 million and HUF 841 million for the years ended December 31, 2003 and 2002, respectively.

Commissions received by the Bank from OTP Fund Management in relation to custody activity were HUF 509 million and HUF 438 million in relation to trading activity were HUF 2,445 million and HUF 2,116 million for the years ended December 31, 2003 and 2002, respectively.

Commissions paid by the Bank to OTP Real Estate in relation to its activity were HUF 3,735 million and HUF 3,071 million for the years ended December 31, 2003 and 2002, respectively.

The Bank sold mortgage loans with recourse to OTP Mortgage Bank Company Ltd. of HUF 448,034 million and HUF 189,785 million during the years ended December 31, 2003 and 2002 (including interest). The book value of these receivables were HUF 447,289 million and HUF 189,430 million.

During the year ended December 31, 2003 the Bank received HUF 25,072 million in commissions from OTP Mortgage Bank Company Ltd. For the year ended December 31, 2002 such commissions were HUF 5,250 million. Such commissions are related to loans originally provided by the Bank and subsequently sold to OTP Mortgage Bank Company Ltd.

In the normal course of business, the Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these unconsolidated financial statements taken as a whole.

The members of the Board of Directors and the Supervisory Board have credit lines of HUF 139 million as at December 31, 2003. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other related parties at normal market conditions. The amount of these loans was HUF 1,700 million and HUF 1,762 million, with commitments to extend credit and guarantees of HUF 135 million and HUF 173 million as at December 31, 2003 and 2002, respectively.

NOTE 24: CASH AND CASH EQUIVALENTS

	2003	2002
Cash, due from banks and balances with the NBH	252,975	348,424
Compulsory reserve established by the NBH	- 109,532	- 93,067
	143,443	255,357

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NOTE 25: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying Unconsolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 46,187 million and HUF 46,745 million as at December 31, 2003 and 2002, respectively.

NOTE 26: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 22% and 30% of the Bank's total assets consisted of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at December 31, 2003 and 2002, respectively. Approximately 19% and 6% of the Bank's total assets consisted securities issued by the OTP Mortgage Bank Company Ltd. as at December 31, 2003 and 2002, respectively. There were no other significant concentrations of the Bank's assets or liabilities as at December 31, 2003 and 2002, respectively.

NOTE 27: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the National Bank of Hungary. The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at December 31, 2003

	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	(in HUF mn) Total
Cash, due from banks and balances with the National Bank of Hungary	252,975	–	–	–	252,975
Placements with other banks, net of allowance for possible placement losses	146,823	7,855	10,174	357	165,209
Securities held-for-trading and available-for-sale	12,105	27,740	200,892	71,658	312,395
Loans, net of allowance for possible loan losses	109,641	285,516	461,162	214,106	1,070,425
Accrued interest receivable	31,789	1	2	–	31,792
Equity investments	–	–	–	138,808	138,808
Securities held-to-maturity	115,358	69,298	257,486	183,167	625,309
Premises, equipment and intangible assets, net	–	–	20,540	65,860	86,400
Other assets	44,389	3,926	–	–	48,315
TOTAL ASSETS	713,080	394,336	950,256	673,956	2,731,628

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(Continued from page 107)

	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	(in HUF mn) Total
Due to banks and deposits from the National Bank of Hungary and other banks	15,336	14,832	58,258	2,655	91,081
Deposits from customers	1,905,485	320,928	38,115	–	2,264,528
Liabilities from issued securities	238	–	1,801	–	2,039
Accrued interest payable	5,697	2,198	–	–	7,895
Other liabilities	63,762	10,734	–	–	74,496
Subordinated bonds and loans	–	–	10,413	5,000	15,413
TOTAL LIABILITIES	1,990,518	348,692	108,587	7,655	2,455,452
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	262,504	262,504
Treasury shares	–	– 14,328	–	–	– 14,328
TOTAL SHAREHOLDERS' EQUITY	–	– 14,328	–	290,504	276,176
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,990,518	334,364	108,587	298,159	2,731,628
LIQUIDITY (DEFICIENCY)/EXCESS	– 1,277,438	59,972	841,669	375,797	–

As at December 31, 2002

	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	(in HUF mn) Total
Cash, due from banks and balances with the National Bank of Hungary	346,964	1,026	307	127	348,424
Placements with other banks, net of allowance for possible placement losses	217,817	45,788	13,722	300	277,627
Securities held-for-trading and available-for-sale	9,957	6,185	53,301	134,965	204,408
Loans, net of allowance for possible loan losses	150,122	225,304	338,292	281,276	994,994
Accrued interest receivable	21,979	1,395	33	–	23,407
Equity investments	–	–	–	48,888	48,888
Securities held-to-maturity	24,165	56,598	192,060	89,222	362,045
Premises, equipment and intangible assets, net	–	–	28,282	43,023	71,305
Other assets	51,408	7,500	–	–	58,908
TOTAL ASSETS	822,412	343,796	625,997	597,801	2,390,006
Due to banks and deposits from the National Bank of Hungary and other banks	27,445	9,575	7,737	1,644	46,401
Deposits from customers	1,671,710	362,470	11,473	–	2,045,653
Liabilities from issued securities	174	164	1,716	–	2,054
Accrued interest payable	4,810	2,669	–	–	7,479
Other liabilities	61,881	6,114	1,171	267	69,433
Subordinated bonds and loans	–	–	10,511	5,000	15,511
TOTAL LIABILITIES	1,766,020	380,992	32,608	6,911	2,186,531
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	192,358	192,358
Treasury shares	–	– 16,883	–	–	– 16,883
TOTAL SHAREHOLDERS' EQUITY	–	– 16,883	–	220,358	203,475
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,766,020	364,109	32,608	227,269	2,390,006
LIQUIDITY (DEFICIENCY)/EXCESS	– 943,608	– 20,313	593,389	370,532	–

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NOTE 28: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK

As at December 31, 2003

	USD	EUR	Others	(in HUF mn) Total
Assets	75,018	301,021	93,382	469,421
Liabilities	- 91,700	- 244,969	- 34,086	- 370,755
Off-balance sheet assets and liabilities, net	19,596	- 91,036	- 7,094	- 78,534
Net position	2,914	- 34,984	52,202	20,132

As at December 31, 2002

	USD	EUR	Others	(in HUF mn) Total
Assets	155,937	173,721	53,140	382,798
Liabilities	- 112,482	- 170,049	- 34,211	- 316,742
Off-balance sheet assets and liabilities, net	- 42,961	- 4,656	- 4,067	- 51,684
Net position	494	- 984	14,862	14,372

The table above provides an analysis of the Bank's main currency exposures. The remaining currencies are shown within 'Others'. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the National Bank of Hungary and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the 'value at risk' limit on the foreign exchange exposure of the Bank.

NOTE 29: INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Bank's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Bank to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported according to their next repricing date. Fixed income assets and liabilities have been reported according to their maturity.

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As at December 31, 2003 (in HUF mn)

ASSETS	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Cash due from banks and balances															
with the National Bank of Hungary	191,911	3,035	-	-	-	-	-	-	-	-	54,918	3,111	246,829	6,146	252,975
Fixed interest	191,911	3,035	-	-	-	-	-	-	-	-	-	-	191,911	3,035	194,946
Variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	54,918	3,111	54,918	3,111	58,029
Placement with other banks	79,358	65,084	2,500	5,815	2,500	4,913	-	-	-	-	3,901	1,138	88,259	76,950	165,209
Fixed interest	76,058	60,994	2,500	1,010	2,500	-	-	-	-	-	-	-	81,058	62,004	143,062
Variable interest	3,300	4,090	-	4,805	-	4,913	-	-	-	-	-	-	3,300	13,808	17,108
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,901	1,138	3,901	1,138	5,039
Securities held-for-trading and available-for-sale	22,622	-	37,418	13,583	61,451	6,453	10,698	242	151,793	-	7,885	250	291,867	20,528	312,395
Fixed interest	8	-	1,137	1,828	23,729	2,295	10,698	242	151,793	-	-	-	187,365	4,365	191,730
Variable interest	22,614	-	36,281	11,755	37,722	4,158	-	-	-	-	-	-	96,617	15,913	112,530
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,885	250	7,885	250	8,135
Loans	567,096	99,490	147,573	188,929	18,758	21,103	-	-	27,476	-	-	-	760,903	309,522	1,070,425
Fixed interest	10,980	8	-	125	1,751	-	-	-	27,476	-	-	-	40,207	133	40,340
Variable interest	556,116	99,482	147,573	188,804	17,007	21,103	-	-	-	-	-	-	720,696	309,389	1,030,085
Securities held-to-maturity	22,697	-	192,665	-	76,875	-	36,672	-	294,325	2,075	-	-	623,234	2,075	625,309
Fixed interest	-	-	91,255	-	66,753	-	36,672	-	294,325	2,075	-	-	489,005	2,075	491,080
Variable interest	22,697	-	101,410	-	10,122	-	-	-	-	-	-	-	134,229	-	134,229
Fair value of derivative financial instruments in other assets	43,526	50,501	112,327	16,869	45,652	25,189	10,805	7,567	43,314	3,893	-	-	255,624	104,019	359,643
Fixed interest	23,569	50,501	46,725	15,118	5,288	25,189	10,805	7,567	43,314	3,893	-	-	129,701	102,268	231,969
Variable interest	19,957	-	65,602	1,751	40,364	-	-	-	-	-	-	-	125,923	1,751	127,674
LIABILITIES	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Due to banks and deposits with the National Bank of Hungary	9,901	47,332	-	25,524	-	4,916	6	-	1,198	-	664	1,540	11,769	79,312	91,081
Fixed interest	5,389	7,998	-	7,769	-	3,409	6	-	1,198	-	-	-	6,593	19,176	25,769
Variable interest	4,512	39,334	-	17,755	-	1,507	-	-	-	-	-	-	4,512	58,596	63,108
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	664	1,540	664	1,540	2,204
Deposits from customers	1,761,203	51,075	216,332	197,519	7,661	29,451	-	1,287	-	-	-	-	1,985,196	279,332	2,264,528
Fixed interest	358,313	51,075	216,332	197,519	7,661	29,451	-	1,287	-	-	-	-	582,306	279,332	861,638
Variable interest	1,402,890	-	-	-	-	-	-	-	-	-	-	-	1,402,890	-	1,402,890
Liabilities from issued securities	143	-	-	-	-	-	1,801	-	-	-	95	-	2,039	-	2,039
Fixed interest	-	-	-	-	-	-	1,801	-	-	-	-	-	1,801	-	1,801
Variable interest	143	-	-	-	-	-	-	-	-	-	-	-	143	-	143
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	95	-	95	-	95
Fair value of derivative financial instruments in other liabilities	14,301	85,576	23,510	90,428	56,382	6,696	41,579	-	42,766	-	-	-	178,538	182,700	361,238
Fixed interest	8,054	67,063	5,102	59,384	24,026	6,696	41,579	-	42,766	-	-	-	121,527	133,143	254,670
Variable interest	6,247	18,513	18,408	31,044	32,356	-	-	-	-	-	-	-	57,011	49,557	106,568
Subordinated bonds and loans	-	-	-	-	5,000	10,413	-	-	-	-	-	-	5,000	10,413	15,413
Variable interest	-	-	-	-	5,000	10,413	-	-	-	-	-	-	5,000	10,413	15,413

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As at December 31, 2002 (in HUF mn) [continued]

ASSETS	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Cash due from banks and balances															
with the National Bank of Hungary	299,113	2,224	-	939	-	76	-	-	-	446	42,056	3,570	341,169	7,255	348,424
Fixed interest	299,113	2,224	-	197	-	-	-	-	-	446	-	-	299,113	2,867	301,980
Variable interest	-	-	-	742	-	76	-	-	-	-	-	-	-	818	818
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	42,056	3,570	42,056	3,570	45,626
Placement with other banks	105,037	106,711	21,500	7,062	23,780	7,932	-	-	-	-	4,396	1,209	154,713	122,914	277,627
Fixed interest	94,237	103,682	14,000	1,396	23,780	5,629	-	-	-	-	-	-	132,017	110,707	242,724
Variable interest	10,800	3,029	7,500	5,666	-	2,303	-	-	-	-	-	-	18,300	10,998	29,298
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,396	1,209	4,396	1,209	5,605
Securities held-for-trading and available-for-sale	23,142	-	14,637	14,631	27,981	2,252	177	3,873	111,485	271	5,719	240	183,141	21,267	204,408
Fixed interest	445	-	1,277	2,275	6,036	-	177	3,873	111,485	271	-	-	119,420	6,419	125,839
Variable interest	22,697	-	13,360	12,356	21,945	2,252	-	-	-	-	-	-	58,002	14,608	72,610
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	5,719	240	5,719	240	5,959
Loans	533,805	64,293	153,310	90,335	57,563	28,638	2,762	1,817	62,471	-	-	-	809,911	185,083	994,994
Fixed interest	1,983	-	9,984	-	621	2,142	91	1,297	735	-	-	-	13,414	3,439	16,853
Variable interest	531,822	64,293	143,326	90,335	56,942	26,496	2,671	520	61,736	-	-	-	796,497	181,644	978,141
Securities held-to-maturity	22,697	-	131,693	-	53,509	2,954	37,509	-	111,438	2,245	-	-	356,846	5,199	362,045
Fixed interest	-	-	1,853	-	35,387	2,954	37,509	-	111,438	2,245	-	-	186,187	5,199	191,386
Variable interest	22,697	-	129,840	-	18,122	-	-	-	-	-	-	-	170,659	-	170,659
Fair value of derivative financial instruments in other assets	70,579	67,224	37,131	13,521	114,176	21,545	-	8,458	1,162	-	-	-	223,048	110,748	333,796
Fixed interest	69,532	67,224	20,551	11,952	81,576	21,545	-	8,458	1,162	-	-	-	172,821	109,179	282,000
Variable interest	1,047	-	16,580	1,569	32,600	-	-	-	-	-	-	-	50,227	1,569	51,796

LIABILITIES	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Due to banks and deposits with the National Bank of Hungary	25,318	3,687	2,887	7,073	3,498	197	-	-	1,573	446	1,418	304	34,694	11,707	46,401
Fixed interest	20,850	3,097	2,300	893	3,036	197	-	-	1,573	446	-	-	27,759	4,633	32,392
Variable interest	4,468	590	587	6,180	462	-	-	-	-	-	-	-	5,517	6,770	12,287
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,418	304	1,418	304	1,722
Deposits from customers	1,669,931	43,941	49,532	209,817	21,120	39,839	11,473	-	-	-	-	-	1,752,056	293,597	2,045,653
Fixed interest	449,726	43,941	49,532	209,817	9,128	39,839	11,473	-	-	-	-	-	519,859	293,597	813,456
Variable interest	1,220,205	-	-	-	11,992	-	-	-	-	-	-	-	1,232,197	-	1,232,197
Liabilities from issued securities	339	-	-	-	-	-	-	-	1,715	-	-	-	2,054	-	2,054
Fixed interest	-	-	-	-	-	-	-	-	1,715	-	-	-	1,715	-	1,715
Variable interest	339	-	-	-	-	-	-	-	-	-	-	-	339	-	339
Fair value of derivative financial instruments in other liabilities	22,398	110,834	13,951	18,027	68,920	32,188	9,407	1,842	52,546	-	-	-	167,222	162,891	330,113
Fixed interest	21,350	110,834	13,951	18,027	68,920	32,188	9,407	1,842	52,546	-	-	-	166,174	162,891	329,065
Variable interest	1,048	-	-	-	-	-	-	-	-	-	-	-	1,048	-	1,048
Subordinated bonds and loans	-	-	-	-	5,000	10,511	-	-	-	-	-	-	5,000	10,511	15,511
Variable interest	-	-	-	-	5,000	10,511	-	-	-	-	-	-	5,000	10,511	15,511

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NOTE 30: EARNINGS PER SHARE

Earnings per share attributable to the Bank's common shares are determined based on dividing income after income taxes for the year attributable to common shareholders, after the deduction of declared preference dividends, by the weighted average number of common shares outstanding during the year.

	2003	2002
Income after income taxes (in HUF mn)	70,141	51,901
Weighted average number of common shares		
outstanding during the year for calculating basic EPS (piece)	268,322,068	263,700,791
Basic Earnings per share (in HUF)	261	197
Weighted average number of common shares		
outstanding during the year for calculating diluted EPS (piece)	269,377,589	264,488,644
Diluted Earnings per share (in HUF)	260	196

The weighted average number of common shares outstanding during the period does not include treasury shares.

Diluted Earnings per share are determined after additionally taking into consideration the optional rights given to Senior Management of OTP Bank.

NOTE 31: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HUNGARIAN ACCOUNTING STANDARDS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS

	<i>(in HUF mn)</i>				
	Retained Earnings and Reserves Jan 1, 2003	Net income for the year ended Dec 31, 2003	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves Dec 31, 2003
Hungarian financial statements	177,844	71,562	- 16,800	1,170	233,776
Adjustments to Hungarian financial statements:					
Reversal of statutory general provision	14,253	2,803	-	-	17,056
Premium and discount amortization on investment securities	- 48	- 300	-	-	- 348
Allowance for possible loan losses	- 1,340	-	-	-	- 1,340
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	- 228	152	-	-	- 76
Differences in carrying value of subsidiaries	1,012	- 295	-	-	717
Difference in accounting for finance leases	- 337	- 128	-	-	- 465
Fair value adjustment of held-for-trading and available-for-sale financial assets	3,481	- 8,454	-	-	- 4,973
Fair value adjustment of derivative financial instruments	- 1,754	3,943	-	-	2,189
Gain on sale of Treasury Shares	-	- 5	-	5	-
Reversal of goodwill and negative goodwill	- 572	1,257	-	-	685
Revaluation of investments denominated in foreign currency to historical cost	281	- 2,405	-	-	- 2,124
Difference in accounting of repo transaction	- 41	89	-	-	48
Reclassification of direct charges	-	1,170	-	- 1,170	-
Deferred taxation	- 193	752	-	-	559
Dividend payable for the year 2003 proposed at the Annual General Meeting	-	-	16,800	-	16,800
International financial statements	192,358	70,141	-	5	262,504

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INDEPENDENT AUDITORS' OPINION

To the Shareholders and Board of Directors of National Savings and Commercial Bank Ltd.

We have audited the accompanying consolidated balance sheets of National Savings and Commercial Bank Ltd. and its subsidiaries ("the Bank") as at December 31, 2003 and 2002, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the years then ended, included on pages 114 to 147. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2003 and 2002, and the consolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Financial Reporting Standards.

Budapest, April 7, 2004



Deloitte

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Registered by the Budapest Court of Registration
Company Reg. No.: 01-09-071057



BALANCE SHEET

(consolidated, based on IFRS) as at December 31, 2003 and 2002 in HUF mn

	2003	2002
Cash, due from banks and balances		
with the National Bank of Hungary	276,501	355,440
Placements with other banks, net of allowance		
for possible placement losses	252,335	295,892
Securities held-for-trading and available-for-sale	377,016	220,091
Loans, net of allowance for possible loan losses	1,982,587	1,280,710
Accrued interest receivable	32,432	26,195
Equity investments	5,878	5,464
Securities held-to-maturity	299,772	352,916
Premises, equipment and intangible assets, net	167,337	93,568
Other assets	66,981	86,315
TOTAL ASSETS	3,460,839	2,716,591
Due to banks and deposits from		
the National Bank of Hungary and other banks	126,402	79,060
Deposits from customers	2,689,833	2,151,169
Liabilities from issued securities	124,887	84,862
Accrued interest payable	16,395	12,627
Other liabilities	175,677	149,345
Subordinated bonds and loans	15,413	15,511
TOTAL LIABILITIES	3,148,607	2,492,574
Share capital	28,000	28,000
Retained earnings and reserves	309,220	223,412
Treasury shares	– 25,420	– 27,800
TOTAL SHAREHOLDERS' EQUITY	311,800	223,612
MINORITY INTEREST	432	405
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,460,839	2,716,591

The accompanying notes to consolidated financial statements on pages 118 to 147 form an integral part of these consolidated financial statements.



PROFIT AND LOSS ACCOUNT

(consolidated, based on IFRS) as at December 31, 2003 and 2002 in HUF mn

	2003	2002
INTEREST INCOME:		
Loans	159,054	129,711
Placements with other banks	20,820	26,653
Due from banks and balances with the National Bank of Hungary	18,499	19,251
Securities held-for-trading and available-for-sale	56,874	21,879
Securities held-to-maturity	28,155	32,822
<i>TOTAL INTEREST INCOME</i>	<i>283,402</i>	<i>230,316</i>
INTEREST EXPENSE:		
Due to banks and deposits from the National Bank of Hungary and other banks	18,096	6,440
Deposits from customers	81,418	85,445
Liabilities from issued securities	7,044	3,193
Subordinated bonds and loans	748	963
<i>TOTAL INTEREST EXPENSE</i>	<i>107,306</i>	<i>96,041</i>
NET INTEREST INCOME	176,096	134,275
Provision for possible loan and placement losses	10,817	8,817
NET INTEREST INCOME AFTER PROVISION FOR POSSIBLE LOAN AND PLACEMENT LOSSES	165,279	125,458
NON-INTEREST INCOME:		
Fees and commissions	81,644	63,618
Foreign exchange gains and losses, net	5,167	– 2,768
Losses and gains on securities, net	– 7,591	1,062
Gains on real estate transactions, net	1,473	809
Dividend income	437	600
Insurance premiums	56,269	49,715
Other	12,249	11,545
<i>TOTAL NON-INTEREST INCOME</i>	<i>149,648</i>	<i>124,581</i>
NON-INTEREST EXPENSES:		
Fees and commissions	19,944	12,965
Personnel expenses	61,303	50,241
Depreciation and amortization	19,793	17,021
Insurance expenses	41,825	39,752
Other	69,401	56,932
<i>TOTAL NON-INTEREST EXPENSE</i>	<i>212,266</i>	<i>176,911</i>
INCOME BEFORE INCOME TAXES	102,661	73,128
Income taxes	– 19,324	– 13,952
NET INCOME AFTER INCOME TAXES	83,337	59,176
Minority interest	– 1	55
NET INCOME	83,336	59,231
Consolidated earnings per share (in HUF)		
basic	320	229
diluted	319	228

The accompanying notes to consolidated financial statements on pages 118 to 147 form an integral part of these consolidated financial statements.



STATEMENT OF CASH FLOW

(consolidated, based on IFRS) as at December 31, 2003 and 2002 in HUF mn

	2003	2002
OPERATING ACTIVITIES		
Profit before tax	102,661	73,128
<i>Adjustments to reconcile profit before tax to net cash provided by operating activities</i>		
Income tax paid	– 20,275	– 15,436
Depreciation and amortization	19,793	17,021
Provision for possible loan and placement losses	10,817	8,817
Provision for permanent diminution in value of held-to-maturity investments	–	26
Provision/(credit) for permanent diminution in value of equity investments	34	– 1,548
Provision/(credit) for possible losses on other assets	1,507	– 1,317
Provision for possible losses on off-balance sheet commitments and contingent liabilities, net	997	2,355
Net (income)/loss from accounting for associates under the equity method of accounting	– 268	160
Net increase in insurance reserves	15,657	16,316
Unrealised losses/(gains) on fair value adjustment of securities held-for-trading and available-for-sale	6,263	– 369
Unrealised losses/(gains) on fair value adjustment of derivative financial instruments	2,860	– 5,610
Minority interest	– 1	55
<i>Changes in operating assets and liabilities</i>		
Net (increase)/decrease in accrued interest receivable	– 3,481	3,928
Net decrease/(increase) in other assets, excluding advances for investments and before allowance for possible losses	12,444	– 12,328
Net increase/(decrease) in accrued interest payable	1,385	– 730
Net increase in other liabilities	9,435	10,201
Net Cash Provided by Operating Activities	159,828	94,669
INVESTING ACTIVITIES		
Net decrease in placements with other banks, before provision for possible placement losses	100,523	48,522
Net (increase)/decrease in securities held-for-trading and available-for-sale, before unrealised gains or losses	– 111,346	32,265
Net decrease/(increase) in equity investments, before provision for permanent diminution in value	554	– 861
Purchase of investment in subsidiary, net	– 67,758	– 3,288
Net decrease in debt securities held-to-maturity	70,183	48,740
Net (increase)/decrease in advances for investments, included in other assets	– 74	17
Net increase in loans, before provision for possible loan losses	– 564,303	– 448,152
Net additions to premises, equipment and intangible assets	– 36,439	– 31,791
Net Cash Used in Investing Activities	– 608,660	– 354,548

FINANCIAL REPORT

	2003	2002
FINANCING ACTIVITIES		
Net increase in due to banks and deposits from the National Bank of Hungary and other banks	47,259	6,815
Net increase in deposits from customers	277,847	194,716
Net increase in liabilities from issued securities	40,025	43,590
Decrease in subordinated bonds and loans	- 98	- 1,782
Minority interest	15	24
Foreign currency translation gains/(losses)	2,467	- 360
Net change in treasury shares	2,385	- 2,545
Net (increase)/decrease in compulsory reserves at National Bank of Hungary	- 16,627	15,055
Dividends paid	- 8	- 6,912
Net Cash Provided by Financing Activities	353,265	248,601
Net Decrease in Cash and Cash Equivalents	- 95,566	- 11,278
<i>Cash and cash equivalents as at January 1</i>	<i>260,226</i>	<i>271,504</i>
Cash and Cash Equivalents as at December 31	164,660	260,226
Analysis of cash and cash equivalents opening and closing balance		
Cash, due from banks and balances with the National Bank of Hungary	355,440	381,773
Compulsory reserve established by the National Bank of Hungary	- 95,214	- 110,269
Cash and cash equivalents as at January 1	260,226	271,504
Cash, due from banks and balances with the National Bank of Hungary	276,501	355,440
Compulsory reserve established by the National Bank of Hungary	- 111,841	- 95,214
Cash and cash equivalents as at December 31	164,660	260,226

The accompanying notes to consolidated financial statements on pages 118 to 147 form an integral part of these consolidated financial statements.



STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(consolidated, based on IFRS) as at December 31, 2003 and 2002 in HUF mn

	Share Capital	Retained Earnings and Reserves	Treasury Share	Total
Balance as at January 1, 2002	28,000	165,643	- 26,357	167,286
Net income after income taxes	-	59,231	-	59,231
Loss on sale of treasury shares	-	- 1,102	-	- 1,102
Change in carrying value of treasury shares	-	-	- 1,443	- 1,443
Foreign currency translation gain	-	- 360	-	- 360
Balance as at December 31, 2002	28,000	223,412	- 27,800	223,612
Net income after income taxes	-	83,336	-	83,336
Gain on sale of treasury shares	-	5	-	5
Change in carrying value of treasury shares	-	-	2,380	2,380
Foreign currency translation gain	-	2,467	-	2,467
Balance as at December 31, 2003	28,000	309,220	- 25,420	311,800

The accompanying notes to consolidated financial statements on pages 118 to 147 form an integral part of these consolidated financial statements.



NOTES TO FINANCIAL STATEMENTS

(consolidated, based on IFRS)

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. GENERAL

National Savings and Commercial Bank Ltd. (the "Bank" or "OTP") was established on December 31, 1990, when the predecessor State-owned company was transformed into a limited liability company.

The Bank's registered office address is 16 Nador street, Budapest 1051.

As at December 31, 1994, 79% of the Bank's shares were held directly or indirectly by the Hungarian Government and the remaining 21% were held by domestic investors or represented as own shares (less than 3%). In spring 1995, 20% of the shares were transferred by the Hungarian Government to the Hungarian Social Security Funds. Subsequent to the successful privatization of the Bank by a public offering in summer 1995, the Bank's shares were introduced to the Budapest and the Luxembourg stock exchanges and were also listed on SEAQ London and PORTAL (USA).

At an extraordinary General Assembly, on September 3, 1997, the Bank issued a preferential voting share with a nominal value of HUF 1 thousand (the "Special Share") to the State Privatization and Holding Company. The Special Share gives the power to the State Privatization and Holding Company to control the outcome of certain shareholder votes in accordance with the Bank's Articles of Association and the right to delegate one member to the Bank's Board of Directors and one member to the Supervisory Board of the Bank.

By public offerings in fall 1997 and fall 1999, the State Privatization and Holding Company sold the remaining common shares.



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In the first quarter of the year of 2002 the nominal value of the common shares of the Bank has decreased from HUF 1,000 to HUF 100 per share.

As at December 31, 2003 approximately 92.4% of the Bank's shares were held by domestic and foreign private and institutional investors. The remaining shares are owned by employees (2.9%) and the Bank (4.7%).

The Bank provides a full range of commercial banking services through a wide network of 761 branches, thereof 432 branches are in Hungary, 271 branches are in Bulgaria and 58 branches are in Slovakia.

As at December 31, 2003 the number of employees at the Bank and its subsidiary companies (together the "Group") was 16,992. The average number of employees for the year ended December 31, 2003 was 17,311.

1.2. ACCOUNTING

The Group maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The Group's functional currency is the Hungarian Forint ("HUF").

Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets. Certain adjustments have been made to the Bank's Hungarian consolidated statutory accounts, in order to present the consolidated financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB), which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarized below:

2.1. BASIS OF PRESENTATION

These consolidated financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded on fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

2.2. FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as of the date of the consolidated financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded in the Consolidated Statement of Operations.

Net differences resulting from translating foreign currency financial statements of consolidated subsidiaries are presented as an element of retained earnings and reserves in the Consolidated Balance Sheet.

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2.3. PRINCIPLES OF CONSOLIDATION

Included in these consolidated financial statements are the accounts of those subsidiaries in which the Bank holds a controlling interest. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 26. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated in accordance with IFRS because it is either intended that the shares shall be disposed of in the near future or the effect of consolidating such companies is immaterial to the consolidated financial statements as a whole (see Note 2.9.).

2.4. ACCOUNTING FOR ACQUISITIONS

Upon acquisition, subsidiaries are accounted for under the fair value method of accounting. Any goodwill or negative goodwill arising on acquisition is recognized in the consolidated balance sheet and accounted for as indicated below.

Goodwill, which represents the residual cost of the acquisition after recognizing the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, is held as an intangible asset and recorded as Depreciation and amortization in the Consolidated Statement of Operations, in anticipation of future economic benefits, on a straight-line basis over a period of five years. The value of any goodwill held in the Consolidated Balance Sheet is reassessed on an annual basis, determined on the basis of specific identification of the investment. If it is no longer probable that the goodwill will be recovered from future economic benefits, it is recognized immediately as an expense.

The excess, as at the date of the exchange transaction, of the Bank's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognised as negative goodwill among intangible assets.

The extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Bank's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised as Other income in the Consolidated Statement of Operations when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably at the date of acquisition, negative goodwill is recognised as other income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.

Income, expenses, profits and losses of subsidiaries after the date of acquisition are included in the Bank's Consolidated Statements of Operations.

2.5. SECURITIES HELD-TO-MATURITY

Investments in securities are accounted on a settlement date basis and are initially measured at cost. At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investment.

Held-to-maturity investments include securities, which the Group is able and has the intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian Government.

FINANCIAL REPORT

2.6. SECURITIES HELD-FOR-TRADING AND AVAILABLE-FOR-SALE

Investments in securities are accounted on a settlement date basis and are initially measured at cost. Held-for-trading and available-for-sale investments are measured at subsequent reporting dates at fair value and unrealised gains and losses are included in the Consolidated Statement of Operations for the period. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, bonds issued by NBH and other securities. Other securities include shares in commercial companies, shares in investment funds, bonds issued by companies and foreign governments and mortgage bonds issued by other financial institutions.

Available-for-sale securities are remeasured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the user.

Those held-for-trading and available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less allowance for permanent diminution in value, when appropriate.

2.7. LOANS, PLACEMENTS WITH OTHER BANKS AND ALLOWANCE FOR POSSIBLE LOAN AND PLACEMENT LOSSES

Loans and placements with other banks are stated at the principal amounts outstanding, net of allowance for possible loan or placements losses, respectively. Interest is accrued and credited to income based on the principal amount outstanding. When a borrower is unable to meet payments as they become due or, in the opinion of the management, there is an indication that a borrower may be unable to meet payments as they become due, all unpaid interests are reversed. Loan origination fees and costs are recognized in the Consolidated Statement of Operations in full at the time of the loan origination.

The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

The allowances for possible loan and placement losses are maintained at levels adequate to absorb probable future losses. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.

2.8. SALE AND REPURCHASE AGREEMENTS

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in Other liabilities. Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in Other assets. Interest is accrued evenly over the life of the repurchase agreement.

2.9. EQUITY INVESTMENTS

Companies where the Bank has a significant interest are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is immaterial to the consolidated financial statements as a whole. Shares which are intended to be disposed of are included among securities available-for-sale.

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Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a controlling or significant interest are recorded at the cost of acquisition, less allowance for permanent diminution in value, when appropriate.

Gains and losses on the sale of equity investments are determined on the basis of the specific identification of the cost of each investment.

2.10. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

Premises, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Buildings	1–6%
Machinery and equipment	3.4–50%
Vehicles	10–33%
Leased assets	16.7–33.3%
Goodwill and negative goodwill	4–20%
Software	14.2–50%
Property rights	14.2–33%

Depreciation and amortization on premises, equipment and intangible assets commences on the day such assets are placed into service.

At each balance sheet date, the Group reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of premises, equipment and other tangible fixed assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

2.11. LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Consolidated Statement of Operations over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

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Payments made under operating leases are charged to the Consolidated Statement of Operations on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.12. PROPERTIES HELD-FOR-RESALE

Properties held-for-resale are accounted for at historical cost less allowance for permanent diminution in value and are included in other assets in the Consolidated Balance Sheet. Properties held-for-resale include property held-for-sale in the normal course of business as a result of construction or development, real estate held due to work out of loans and property acquired exclusively with a view to subsequent disposal in the near future.

2.13. INSURANCE RESERVES

Insurance reserves are accrued for liabilities from life and non-life insurance contracts and are included in other liabilities. The level of such reserves reflects the amount of future liabilities expected as at the date of the consolidated financial statements. The provision for outstanding claims and claim settlement expenses for non-life policies are based upon estimates of the expected losses for all classes of business. The reserve includes reported claims, claims incurred but not reported and claim adjustment expenses. This provision takes into account mortality factors within Hungary and other countries where insurance operations are conducted and is based upon mortality tables approved by regulatory authorities.

2.14. TREASURY SHARES

Treasury shares are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Balance Sheet at acquisition cost as a deduction from consolidated shareholders' equity.

Gains and losses on the sale of treasury shares are credited or charged directly to consolidated retained earnings and reserves.

2.15. INCOME TAXES

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation.

Deferred taxation is accounted for, using the balance sheet liability method in respect of temporary differences in the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realised or the liability is settled.

2.16. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of its business, the Group has entered into off-balance sheet commitments such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. The allowance for possible losses on commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Group recognises an allowance when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

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2.17. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency swaps. These financial instruments are used by the Group to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are initially recognised at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Consolidated Statement of Operations as they arise. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit Consolidated Statement of Operations along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Consolidated Statement of Operations.

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the reserve among consolidated shareholders' equity. Amounts deferred in equity are transferred to the Consolidated Statement of Operations and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the result for the period. The ineffective element of the hedge is charged directly to the Consolidated Statement of Operations.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held-for-trading with fair value gains and losses charged directly to the Consolidated Statement of Operations.

2.18. CONSOLIDATED STATEMENT OF CASH FLOW

For the purposes of reporting consolidated cash flows, cash and cash equivalents include cash, due from banks and balances with the National Bank of Hungary, excluding compulsory reserve established by the National Bank of Hungary. Consolidated cash flows from hedging activities are classified in the same category as the item being hedged.

2.19. SEGMENTAL REPORTING

Condensed financial statements of subsidiaries, representing segments of business, other than banking, are not presented due to their immateriality to the consolidated financial statements as a whole. The major non banking segment is insurance operations.

Over 90% of Group's income and expense for the years ended December 31, 2003 and 2002 originated in Hungary.

2.20. COMPARATIVE FIGURES

Certain amounts in the 2002 consolidated financial statements have been reclassified to conform with the current year presentation.

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NOTE 3: CASH, DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY

		2003	(in HUF mn) 2002
Cash on hand:	In HUF	55,073	42,114
	In foreign currency	21,730	3,570
		76,803	45,684
Due from banks and balances with the National Bank of Hungary:			
Within one year:	In HUF	195,402	306,003
	In foreign currency	4,296	3,319
		199,698	309,322
Over one year:	In foreign currency	–	434
Total		276,501	355,440

Based on the requirements for compulsory reserve set by the National Bank of Hungary, the balance of compulsory reserves maintained by the Group amounted to HUF 111,841 million and HUF 95,214 million as at December 31, 2003 and 2002, respectively.

NOTE 4: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR POSSIBLE PLACEMENT LOSSES

		2003	(in HUF mn) 2002
Within one year:	In HUF	99,079	148,158
	In foreign currency	143,127	134,175
		242,206	282,333
Over one year:	In HUF	3,000	8,000
	In foreign currency	7,311	5,722
		10,311	13,722
		252,517	296,055
Allowance for possible placement losses		– 182	– 163
Total		252,335	295,892

Placements of OTP Banka Slovensko, a.s. with the National Bank of Slovakia amounted to HUF 21,940 million and HUF 13,847 million as at December 31, 2003 and 2002, respectively.

Placements of DSK Bank EAD with the National Bank of Bulgaria amounted to HUF 15,226 million as at December 31, 2003.

Placements with other banks in foreign currency as at December 31, 2003 and 2002 bear interest rates in the range from 0.3% to 5.1% and from 0.1% to 9.2%, respectively.

Placements with other banks in HUF as at December 31, 2003 and 2002 bear interest rates in the range from 9.6% to 13.7% and from 7.5% to 11.2%, respectively.

An analysis of the change in the allowance for possible placement losses is as follows:

	2003	(in HUF mn) 2002
Balance as at January 1	163	170
Provision/(credit) for possible placement losses	19	– 7
Balance as at December 31	182	163

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NOTE 5: SECURITIES HELD-FOR-TRADING AND AVAILABLE-FOR-SALE

	2003	2002
<i>(in HUF mn)</i>		
Held-for-trading securities:		
Discounted Treasury bills	60,178	46,335
Hungarian Government interest bearing Treasury bills	473	1,945
Government bonds	105,804	60,837
Mortgage bonds	1,476	–
Other securities	5,539	7,615
	173,470	116,732
Available-for-sale securities:		
Government bonds	142,952	74,747
Discounted Treasury bills	21,993	–
Other bonds	31,959	23,660
Mortgage bonds	1,443	331
Other securities	5,199	4,621
	203,546	103,359
Total	377,016	220,091

Approximately 76% and 85% of the held-for-trading and available-for-sale securities portfolio was denominated in HUF as at December 31, 2003 and 2002, respectively.

Approximately 26% and 12% of the government bonds were denominated in foreign currency as at December 31, 2003 and 2002, respectively. Approximately 9.3%, 2.3%, 0.4%, 31.6%, 27.1% and 29.3% of this portfolio was denominated in USD, JPY, GBP, EUR, SKK and BGN as at December 31, 2003 and 15.4%, 11%, 2.3%, 0.2% and 71.1% of this portfolio was denominated in USD, JPY, GBP, EUR and SKK as at December 31, 2002.

Interest rates on securities held-for-trading are ranged from 1.2% to 13.1% and from 2.3% to 13% as at December 31, 2003 and 2002, respectively.

Interest conditions and the remaining maturities of held-for-trading and available-for-sale financial assets can be analyzed as follows:

	2003	2002
<i>(in HUF mn)</i>		
Within five years:		
with variable interest	64,609	50,669
with fixed interest	223,443	103,242
	288,052	153,911
Over five years:		
with variable interest	8,184	17,950
with fixed interest	60,033	26,215
	68,217	44,165
Non interest-bearing securities	20,747	22,015
Total	377,016	220,091

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NOTE 6: LOANS, NET OF ALLOWANCE FOR POSSIBLE LOAN LOSSES

	2003	2002
	<i>(in HUF mn)</i>	
Loans and trade bills within one year	519,671	401,895
Loans and trade bills over one year	1,527,072	935,050
	2,046,743	1,336,945
Allowance for possible loan losses	– 64,156	– 56,235
Total	1,982,587	1,280,710

Foreign currency loans represent approximately 24.6% and 18% of the total loan portfolio, before allowance for possible losses, as December 31, 2003 and 2002, respectively.

Loans denominated in HUF, with maturity within one year as at December 31, 2003 and 2002, bear interest rates in the range from 6% to 32% and from 9.5% to 33%, respectively.

Loans denominated in HUF, with maturity over one year as at December 31, 2003 and 2002, bear interest rates in the range from 4% to 22.8% and from 4% to 20%, respectively.

Approximately 3% and 6.3% of the gross loan portfolio represented loans on which interest is not being accrued as at December 31, 2003 and 2002, respectively.

An analysis of the loan portfolio by type, before allowance for possible loan losses, is as follows:

	2003		2002	
	<i>(in HUF mn)</i>			
Commercial loans	764,864	37%	629,309	47%
Municipality loans	92,774	5%	128,255	10%
Housing loans	826,808	40%	411,838	31%
Consumer loans	362,297	18%	167,543	12%
	2,046,743	100%	1,336,945	100%

An analysis of the change in the allowance for possible loan losses is as follows:

	2003	2002
	<i>(in HUF mn)</i>	
Balance as at January 1	56,235	50,371
Provision for possible loan losses	9,648	8,824
Write-offs	– 1,670	– 2,960
Foreign currency translation loss	– 57	–
Balance as at December 31	64,156	56,235

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NOTE 7: EQUITY INVESTMENTS

	2003	2002 <i>(in HUF mn)</i>
Equity investments:		
Unconsolidated subsidiaries	3,673	1,450
Associated companies	2,065	4,357
Other	1,692	1,194
	7,430	7,001
Allowance for permanent diminution in value	- 1,552	- 1,537
Total	5,878	5,464
Total assets of unconsolidated subsidiaries	13,626	4,738

An analysis of the change in the allowance for permanent diminution in value is as follows:

	2003	2002 <i>(in HUF mn)</i>
Balance as at January 1	1,537	3,085
Provision/(credit) for permanent diminution in value	34	- 1,548
Foreign currency translation loss	- 19	-
Balance as at December 31	1,552	1,537

NOTE 8: HELD-TO-MATURITY INVESTMENTS

	2003	2002 <i>(in HUF mn)</i>
Government securities	293,388	347,880
Hungarian Government discounted Treasury Bills	987	3,689
Other debt securities	5,427	1,373
	299,802	352,942
Allowance for permanent diminution in value	- 30	- 26
Total	299,772	352,916

Interest conditions and the remaining maturities of investments in debt securities can be analysed as follow:

	2003	2002 <i>(in HUF mn)</i>
Within five years: with variable interest	93,081	128,540
with fixed interest	125,151	145,809
	218,232	274,349
Over five years: with variable interest	46,222	48,736
with fixed interest	35,348	29,857
	81,570	78,593
Total	299,802	352,942

Approximately 93.5% and 98.5% of the debt securities portfolio was denominated in HUF as at December 31, 2003 and 2002, respectively. In most cases, interests on variable rate bonds are based on the interest rates of 90-day Hungarian Government Treasury bills and are adjusted semi-annually.

Interest rates on fixed interest securities denominated in HUF are ranged from 6.3% to 10.5% and from 6.3% to 13% as at December 31, 2003 and 2002, respectively. Interest on fixed rate and variable rate securities is, in most cases, paid semi-annually.

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The fair value of held-to-maturity investments was HUF 302,738 million and HUF 358,468 million as at December 31, 2003 and 2002, respectively.

An analysis of the change in the allowance for permanent diminution in value is as follows:

	2003	(in HUF mn) 2002
Balance as at January 1	26	–
Provision for permanent diminution in value	–	26
Foreign currency translation loss	4	–
Balance as at December 31	30	26

NOTE 9: PREMISES, EQUIPMENT AND INTANGIBLE ASSETS, NET *(in HUF mn)*

For the year ended December 31, 2003:

	Intangible assets	Land and buildings	Machinery and equipment	Construction in progress	Total
<i>Cost</i>					
Balance as at January 1, 2003	30,755	59,357	79,403	7,326	176,841
Additions	56,719	29,418	18,704	23,974	128,815
Foreign currency translation differences	118	1,513	927	23	2,581
Disposals	– 19,204	– 291	– 8,339	– 24,821	– 52,655
Balance as at December 31, 2003	68,388	89,997	90,695	6,502	255,582
<i>Depreciation and Amortization</i>					
Balance as at January 1, 2003	20,191	11,451	51,631	–	83,273
Charge	7,405	1,634	10,754	–	19,793
Foreign currency translation differences	104	579	826	–	1,509
Disposals	– 9,176	– 272	– 6,882	–	– 16,330
Balance as at December 31, 2003	18,524	13,392	56,329	–	88,245
<i>Net book value</i>					
Balance as at January 1, 2003	10,564	47,906	27,772	7,326	93,568
Balance as at December 31, 2003	49,864	76,605	34,366	6,502	167,337

An analysis of the changes in the goodwill and negative goodwill for the year ended December 31, 2003 is as follows:

	Goodwill	Negative goodwill
<i>Cost</i>		
Balance as at January 1, 2003	1,062	– 4,216
Additions	38,226	–
Balance as at December 31, 2003	39,288	– 4,216
<i>Depreciation and Amortization</i>		
Balance as at January 1, 2003	1,009	892
Charge	1,955	148
Balance as at December 31, 2003	2,964	1,040
<i>Net book value</i>		
Balance as at January 1, 2003	53	– 3,324
Balance as at December 31, 2003	36,324	– 3,176

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NOTE 10: OTHER ASSETS

	2003	(in HUF mn) 2002
Receivables due from collection of Hungarian Government securities	69	45
Property held-for-sale	10,641	10,244
Due from Hungarian Government for interest subsidies	1,885	876
Trade receivables and other advances	5,803	3,511
Advances for securities and investments	553	479
Taxes recoverable	2,400	821
Inventories	1,587	962
Credits sold under deferred payment scheme	45	503
Receivables from leasing activities	21,023	28,752
Receivables due from insurance bond holders	2,136	2,039
Margin account balance	–	240
Receivables due from pension funds and fund management	1,195	12,707
Settlement accounts	6	925
Prepayments and accrued income	7,307	4,773
Receivables from investing services	1,139	2,335
Fair value of derivative financial instruments	1,993	8,476
Other	13,138	11,098
	70,920	88,786
Allowance for possible losses on other assets	– 3,939	– 2,471
Total	66,981	86,315

Allowance for possible losses on other assets mainly consists of allowances for property held-for-sale, trade receivables, receivables from leasing activities and reinsurance receivables.

An analysis of the change in the allowance for possible losses on other assets is as follows:

	2003	(in HUF mn) 2002
Balance as at January 1	2,471	3,788
Provision/(credit) for possible losses on other assets	1,507	– 1,317
Foreign currency translation gain	– 39	–
Balance as at December 31	3,939	2,471

NOTE 11: DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS

	2003	(in HUF mn) 2002
Within one year:		
In HUF	2,417	27,323
In foreign currency	55,357	31,213
	57,774	58,536
Over one year:		
In HUF	4,291	4,774
In foreign currency	64,337	15,750
	68,628	20,524
Total	126,402	79,060

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Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF within one year as at December 31, 2003 and 2002, bear interest rates in the range from 11.4% to 12.9% and from 7.5% to 9.7%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in HUF over one year as at December 31, 2003 and 2002, bear interest rates in the range from 3% to 9.4% and from 3% to 9.5%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency within one year as at December 31, 2003 and 2002, bear interest rates in the range from 0.2% to 6% and from 0.7% to 8.4%, respectively.

Due to banks and deposits from the National Bank of Hungary and other banks payable in foreign currency over one year as at December 31, 2003 and 2002, bear interest rates in the range from 0.5% to 8% and from 1.4% to 9.2%, respectively.

NOTE 12: DEPOSITS FROM CUSTOMERS

		<i>(in HUF mn)</i>	
		2003	2002
Within one year:	In HUF	1,961,435	1,756,724
	In foreign currency	661,761	360,327
		<i>2,623,196</i>	<i>2,117,051</i>
Over one year:	In HUF	66,049	33,693
	In foreign currency	588	425
		<i>66,637</i>	<i>34,118</i>
Total		2,689,833	2,151,169

Deposits from customers payable in HUF within one year as at December 31, 2003 and 2002, bear interest rates in the range from 0.8% to 11% and from 0% to 9.1%, respectively.

Deposits from customers payable in HUF over one year as at December 31, 2003 and 2002, bear interest rates in the range from 3% to 8.8% and from 3% to 7.6%, respectively.

Deposits from customers payable in foreign currency within one year as at December 31, 2003 and 2002, bear interest rates in the range from 0% to 5.3%, respectively.

Deposits from customers payable in foreign currency over one year as at December 31, 2003 and 2002, bear interest rates in the range from 0% to 6% and from 0.1% to 5.4%, respectively.

An analysis of deposits from customers by type, is as follows:

		<i>(in HUF mn)</i>		
		2003	2002	
Commercial deposits	501,371	19%	381,242	18%
Municipality deposits	188,487	7%	156,365	7%
Consumer deposits	1,999,975	74%	1,613,562	75%
	2,689,833	100%	2,151,169	100%

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NOTE 13: LIABILITIES FROM ISSUED SECURITIES

	2003	(in HUF mn) 2002
With original maturity:		
Within one year	23,161	12,312
Over one year	101,726	72,550
Total	124,887	84,862

Liabilities from issued securities are denominated mainly in HUF and as at December 31, 2003 and 2002, bear interest at rates in the range from 2% to 9.3% and from 6.4% to 9.3%, respectively.

NOTE 14: OTHER LIABILITIES

	2003	(in HUF mn) 2002
Deferred tax liabilities	2,579	699
Taxes payable	3,231	2,340
Giro clearing accounts	13,191	23,916
Accounts payable	11,723	7,981
Insurance reserves	84,201	68,544
Salaries and social security payable	8,082	7,398
Liability from security trading	15,876	5,431
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	8,357	7,511
Margin account balance	34	–
Dividends payable	588	598
Advances received from customers	3,863	1,681
Accrued expenses	11,366	6,941
Loan for collection	2,202	1,567
Suspense accounts	2,083	2,543
Fair value of derivative financial instruments	90	3,713
Other	8,211	8,482
Total	175,677	149,345

The allowances for possible losses on off-balance sheet commitments and contingent liabilities are detailed as follows:

	2003	(in HUF mn) 2002
Allowance for litigation	1,509	1,591
Allowance for possible losses on off-balance sheet commitments and contingent liabilities	4,463	3,212
Other allowances (for expected liabilities)	2,046	2,232
Allowance for housing warranties	339	476
Balance as at December 31	8,357	7,511

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The allowance for possible losses on other off-balance sheet commitments and contingent liabilities primarily relates to commitments stemming from guarantees and credit lines issued by the Bank and other Group companies.

As part of its operations, the Group financed and constructed residential accommodation for resale on which it was required to provide a ten-year-guarantee against defective workmanship. The Group has recourse against the constructors for any claims. The recovery of such claims is, however, dependent upon the financial status of the constructors, which is impaired in certain cases. An allowance has been recorded to account for the estimated possible future losses on housing warranties.

Movements in the allowance for possible losses on commitments and contingent liabilities can be summarized as follows:

	2003	(in HUF mn) 2002
Balance as at January 1	7,511	5,225
Allowance for possible off-balance sheet commitments and contingent liabilities	998	2,355
Write-offs	- 152	- 69
Balance as at December 31	8,357	7,511

Movements in insurance reserves can be summarized as follows:

	2003	(in HUF mn) 2002
Balance as at January 1	68,544	52,228
Net increase in insurance reserves	15,657	16,316
Balance as at December 31	84,201	68,544

NOTE 15: SUBORDINATED BONDS AND LOANS

In 1993, the Bank issued HUF 5 billion in bonds, which are subordinated to the other liabilities of the Bank and subscribed by the Hungarian Ministry of Finance. Interest on subordinated bonds and the frequency of payment of interests are based on condition of interest of 2013/C credit consolidated government bonds, which is a variable-rate bond, the interest payable and the rate of interest are fixed twice a year. The semi-annual interest payable was 4.36% as at December 20, 2002, 3.25% as at June 20, 2003, and 4.8% as at December 20, 2003. The original maturity was 20 years. The proceeds of the subordinated bonds were invested in Hungarian Government bonds with similar interest conditions and maturity.

In December 1996, the Bank obtained a USD 30 million and DEM 31.14 million (15.92 million in EUR) subordinated loan from the European Bank for Reconstruction and Development with the original maturity of December 27, 2006. The maturity date was modified to August 27, 2008 on August 22, 2003. The loan is unsecured, subordinate to the other liabilities and has a twelve-year maturity, with interest payable at six-month LIBOR + 1.4% from December 27, 1996 until December 29, 1997, at six-month LIBOR + 1.0% from December 29, 1997 until June 28, 1999, at six-month LIBOR + 1.7% from June 28, 1999 until December 27, 2003 and at six-month LIBOR + 1.35% from December 28, 2003 until August 27, 2008.



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NOTE 16: SHARE CAPITAL

	2003	(in HUF mn) 2002
Authorized, issued and fully paid:		
Common shares	28,000	28,000
	28,000	28,000

From September 3, 1997, the Bank has one preferential voting share (the "Special Share") outstanding with a nominal value of HUF 1 thousand (see Note 1.1).

NOTE 17: RETAINED EARNINGS AND RESERVES

	2003	(in HUF mn) 2002
Balance as at January 1	223,412	165,643
Net income after income taxes	83,336	59,231
Profit/(loss) on sale of treasury shares	5	- 1,102
Foreign currency translation gain/(loss)	2,467	- 360
Balance as at December 31	309,220	223,412

The Bank's unconsolidated reserves under Hungarian Accounting Standards were HUF 234,415 million and HUF 177,843 million at December 31, 2003 and 2002, respectively. Of these amounts, legal reserves represent HUF 41,326 million and HUF 34,169 million, respectively. The legal reserves are not available for distribution.

The Annual General Meeting on April 25, 2003 decided that the Bank would not pay a dividend for the year ended December 31, 2002.

Dividends for the year ended December 31, 2003 will be proposed at the Annual General Meeting in April 2004.

NOTE 18: TREASURY SHARES

	2003	(in HUF mn) 2002
Nominal value (Common Shares)	2,115	2,334
Carrying value at acquisition cost	25,420	27,800

NOTE 19: MINORITY INTEREST

	2003	(in HUF mn) 2002
Balance as at January 1	405	-
Minority interest purchased	- 23	381
Minority interest deriving from capital increase	-	79
Foreign currency translation gain	49	-
Minority interest included in net income	1	- 55
Balance as at December 31	432	405

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NOTE 20: OTHER EXPENSES

	2003	(in HUF mn) 2002
Provision for permanent diminution in value of held-to-maturity investments	–	26
Provision/(credit) for permanent diminution in value of equity investments	34	– 1,548
Provision/(credit) for other assets	1,507	– 1,317
Provision for off-balance sheet commitments and contingent liabilities	997	2,355
Administration expenses, including rent	23,290	21,070
Advertising	5,071	4,272
Taxes, other than income taxes	13,774	9,540
Services	19,211	15,037
Professional fees	2,884	2,769
Other	2,633	4,728
Total	69,401	56,932

NOTE 21: INCOME TAXES

The Group is presently liable for income tax at rates of 18%, 23.5%, 25% and 30% of taxable income. The 18% rate relates to the Bank and its subsidiaries incorporated in Hungary. The 23.5% rate relates to the Bank's subsidiary incorporated in Bulgaria. The 25% rate relates to the Bank's subsidiary incorporated in Slovakia and the 30% rate relates to the Bank's United Kingdom subsidiary.

Deferred tax is calculated at the income tax rate of 16% in Hungary and 23.5% in Bulgaria.

A reconciliation of the income tax charges is as follows:

	2003	(in HUF mn) 2002
Current tax	20,164	13,870
Deferred tax	– 840	82
Total	19,324	13,952

A reconciliation of the deferred tax liability is as follows:

	2003	(in HUF mn) 2002
Balance as at January 1	– 699	– 617
Effect of purchase of subsidiary undertakings	– 2,720	–
Deferred tax charge/(credit)	840	– 82
Balance as at December 31	– 2,579	– 699

A reconciliation of the income tax charge is as follows:

	2003	(in HUF mn) 2002
Income before income taxes	102,661	73,128
Timing differences	4,073	4,397
Adjusted income before income taxes	106,734	77,525
Income taxes	19,324	13,952

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NOTE 22: FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability). Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

CREDIT RISK

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

MARKET RISK

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board of the Group sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

FOREIGN CURRENCY RISK

See Note 30.

LIQUIDITY RISK

See Note 31.

INTEREST RATE RISK

See Note 32.

NOTE 23: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

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a) CONTINGENT LIABILITIES

	2003	(in HUF mn) 2002
Commitments to extend credit	414,543	310,559
Guarantees arising from banking activities	65,727	137,469
Confirmed letters of credit	983	787
Legal disputes	2,893	4,846
Others	2,263	22,467
<i>Total</i>	<i>486,409</i>	<i>476,128</i>

COMMITMENTS TO EXTEND CREDIT, FROM GUARANTEES AND LETTERS OF CREDIT

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

LEGAL DISPUTES

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings correspond to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

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b) DERIVATIVES (nominal amount, unless otherwise stated)

	2003	2002
	<i>(in HUF mn)</i>	
Foreign currency contracts		
Assets	57,763	57,743
Liabilities	– 59,244	– 63,581
Net	– 1,481	– 5,838
Net fair value	– 189	– 7,171
Foreign exchange swaps and interest rate swaps		
Assets	231,222	161,347
Liabilities	– 217,210	– 150,126
Net	14,012	11,221
Net fair value	14,713	17,210
Option contracts		
Assets	25,402	183,322
Liabilities	– 18,956	– 164,999
Net	6,446	18,323
Net fair value	6,356	18,464
Forward rate agreements		
Assets	–	41,700
Liabilities	– 1	– 26,500
Net	– 1	15,200
Net fair value	– 1	15,166

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except of trading with clients, where the Group in most of the cases requires margin deposits.

As at December 31, 2003, the Group has derivative instruments with positive fair values of HUF 1,993 million and negative fair values of HUF 90 million. Corresponding figures as at December 31, 2002 are HUF 8,476 million and HUF 3,713 million.

FOREIGN CURRENCY CONTRACTS

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes. The Group's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

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FOREIGN EXCHANGE SWAPS AND INTEREST RATE SWAPS

The Group enters into foreign-exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning to the swap of certain financial instruments, which usually consist of a prompt and one or more futures contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counter-parties. The Group's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

FORWARD RATE AGREEMENTS

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates. The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

For an analysis of the allowance for possible losses on off balance sheet commitments and contingent liabilities, see Note 14.

NOTE 24: RELATED PARTY TRANSACTIONS

The members of the Board of Directors and the Supervisory Board have credit lines of HUF 139 million as at December 31, 2003. Such credit is made available at normal market conditions.

In the normal course of business, the Bank gives loans and provides services to other related parties at normal market conditions. The amount of these loans was HUF 1,700 million and HUF 1,762 million, with commitments to extend credit and guarantees of HUF 135 million and HUF 173 million as at December 31, 2003 and 2002, respectively.

NOTE 25: CASH AND CASH EQUIVALENTS

	2003	(in HUF mn) 2002
Cash, due from banks and balances with the National Bank of Hungary	276,501	355,440
Compulsory reserve established by the National Bank of Hungary	- 111,841	- 95,214
	164,660	260,226

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NOTE 26: CASH FLOW STATEMENT

A) PURCHASE AND CONSOLIDATION OF SUBSIDIARY UNDERTAKINGS

On October 1, 2003 the Bank completed the acquisition of 100% of the shares of DSK Bank EAD, a leading universal bank in Bulgaria. The purchase price of DSK Bank EAD was EUR 311 million, which was provided in cash.

During 2001, the Bank has entered into a sale purchase agreement to acquire 92.6% interest in OTP Banka Slovensko, a. s. (OBS), whose former name was Investična a rozvojová banka, a universal bank in Slovakia. The acquisition was closed on April 4, 2002. The cost of the transaction was SKK 700 million, which was provided in cash. Subsequently the Bank increased the capital of OBS and acquired some minority interest which resulted in 97.1% ownership as at December 31, 2003.

The fair values of the assets and liabilities acquired, and related goodwill and negative goodwill are as follows:

	2003	(in HUF mn) 2002
Cash, due from banks, and balances with the National Bank	- 11,405	- 1,052
Placements with other banks, net of allowance for possible placement losses	- 56,985	- 12,319
Securities held-for-trading and available-for-sale	- 51,842	- 16,978
Loans, net of allowance for possible loan losses	- 148,372	- 70,048
Accrued interest receivable	- 2,756	- 326
Equity investment	- 734	- 399
Debt securities held-to-maturity	- 17,039	- 53
Premises, equipment and intangible assets	- 19,047	- 9,680
Other assets	- 1,026	- 656
Due to banks and deposits from the National Bank and other banks	83	35,293
Deposits from customers	260,817	64,941
Liabilities from issued securities	-	1,198
Accrued interest payable	2,383	731
Other liabilities	4,824	411
Minority interest	12	381
	- 41,087	- 8,556
(Goodwill)/Negative goodwill	- 38,226	4,216
Cash consideration	- 79,313	- 4,340

B) ANALYSIS OF NET OUTFLOW OF CASH IN RESPECT OF PURCHASE OF SUBSIDIARIES

	2003	(in HUF mn) 2002
Cash consideration	- 79,313	- 4,340
Cash acquired	11,405	1,052
Net cash outflow	- 67,908	- 3,288

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NOTE 27: MAJOR SUBSIDIARIES

Equity investments in companies in which the Bank has a controlling interest are detailed below. All companies are incorporated in Hungary unless indicated otherwise.

Name	Ownership (Direct and Indirect)		Activity
	2003	2002	
OTP-Garancia Insurance Ltd.	100.00%	100.00%	insurance
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
OTP Mérleg Ltd. *	100.00%	100.00%	real estate management
HIF Ltd. (United Kingdom)	100.00%	100.00%	forfeiting
Merkantil Bank Ltd.	100.00%	100.00%	financing car purchases
Merkantil Car Ltd.	100.00%	100.00%	financing car purchases, leasing
OTP Building Society Ltd.	100.00%	100.00%	financing flat purchase and reconstruction
Bank Center No. 1. Ltd.	100.00%	100.00%	letting real estates
OTP Factoring Ltd.	100.00%	100.00%	work-out
Inga Companies	100.00%	100.00%	property management
OTP Fund Management Ltd.	100.00%	100.00%	fund management
OTP Mortgage Bank Company Ltd.	100.00%	100.00%	mortgage loaning
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Banka Slovensko, a. s. (Slovakia)	97.10%	96.86%	commercial banking services
DSK Bank EAD (Bulgaria)	100.00%	–	commercial banking services

* OTP Securities Ltd. was renamed OTP Mérleg Ltd. on March 11, 2003.

For details of the acquisition of DSK Bank EAD in 2003 and OTP Banka Slovensko, a. s. in 2002 refer to Note 26.

NOTE 28: TRUST ACTIVITIES

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying consolidated Balance Sheet. The total amount of such loans managed by the Bank as a trustee amounted to HUF 46,187 million and HUF 46,745 million as at December 31, 2003 and 2002, respectively.

NOTE 29: CONCENTRATION OF ASSETS AND LIABILITIES

Approximately 21.8% and 30.4% of the Group's total assets consist of receivables from, or securities issued by, the Hungarian Government or the National Bank of Hungary as at December 31, 2003 and 2002, respectively.

As at December 31, 2003 and 2002 85.7% and 95.7% of the Group's total assets were held by companies incorporated in Hungary. There were no other significant concentrations of the Group's assets or liabilities as at December 31, 2003 and 2002.

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NOTE 30: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK

As at December 31, 2003

	USD	EUR	Others	(in HUF mn) Total
Assets	110,933	300,078	411,599	822,610
Liabilities	- 125,574	- 287,008	- 394,605	- 807,187
Off-balance sheet assets and liabilities, net	18,097	- 93,515	- 121,109	- 196,527
Net position	3,456	- 80,445	- 104,115	- 181,104

As at December 31, 2002

	USD	EUR	Others	(in HUF mn) Total
Assets	160,805	131,151	139,708	431,664
Liabilities	- 116,739	- 177,792	- 122,342	- 416,873
Off-balance sheet assets and liabilities, net	- 44,412	- 4,103	- 3,208	- 51,723
Net position	- 346	- 50,744	14,158	- 36,932

The table above provides an analysis of the Group's main currency exposures. The remaining currencies are shown within 'Others'. Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Bank of Hungary and own limit system established in respect of limits on open positions. The measurement of the Group's open foreign currency position involves monitoring the 'value at risk' limit on the foreign exchange exposure of the Group.

NOTE 31: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the National Bank of Hungary. The following tables provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at December 31, 2003

	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	(in HUF mn) Total
Cash, due from banks and balances					
with the National Bank of Hungary	276,501	-	-	-	276,501
Placements with other banks, net of allowance for possible placement losses	234,145	7,879	9,874	437	252,335
Securities held-for-trading and available-for-sale	63,994	70,756	176,078	66,188	377,016
Loans, net of allowance for possible loan losses	93,074	363,600	780,960	744,953	1,982,587
Accrued interest receivable	22,761	4,813	1,563	3,295	32,432
Equity investments	-	-	-	5,878	5,878

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<i>(Continued from page 142)</i>	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	<i>(in HUF mn)</i> Total
Debt securities held-to-maturity	24,821	44,069	149,314	81,568	299,772
Premises, equipment and intangible assets, net	2,135	6,892	53,320	104,990	167,337
Other assets	25,438	20,435	19,392	1,716	66,981
TOTAL ASSETS	742,869	518,444	1,190,501	1,009,025	3,460,839
Due to banks and deposits from the					
National Bank of Hungary and other banks	26,909	30,533	66,217	2,743	126,402
Deposits from customers	2,239,798	383,401	63,017	3,617	2,689,833
Liabilities from issued securities	6,505	16,655	32,845	68,882	124,887
Accrued interest payable	9,352	4,613	2,382	48	16,395
Other liabilities	75,902	13,548	24,100	62,127	175,677
Subordinated bonds and loans	–	–	10,413	5,000	15,413
TOTAL LIABILITIES	2,358,466	448,750	198,974	142,417	3,148,607
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	309,220	309,220
Treasury shares	–	– 25,420	–	–	– 25,420
TOTAL SHAREHOLDERS' EQUITY	–	– 25,420	–	337,220	311,800
MINORITY INTEREST	–	–	–	432	432
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,358,466	423,330	198,974	480,069	3,460,839
LIQUIDITY (DEFICIENCY)/EXCESS	– 1,615,597	95,114	991,527	528,956	–

As at December 31, 2002

	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	<i>(in HUF mn)</i> Total
Cash, due from banks and balances					
with the National Bank of Hungary	349,939	5,067	307	127	355,440
Placements with other banks, net of					
allowance for possible placement losses	236,358	45,812	13,722	–	295,892
Securities held-for-trading and available-for-sale	35,289	46,382	89,126	49,294	220,091
Loans, net of allowance for possible loan losses	104,848	238,784	488,148	448,930	1,280,710
Accrued interest receivable	22,977	2,859	93	266	26,195
Equity investments	–	–	–	5,464	5,464
Debt securities held-to-maturity	24,186	56,606	193,531	78,593	352,916
Premises, equipment and intangible assets, net	276	1,135	32,878	59,279	93,568
Other assets	43,474	18,141	23,849	851	86,315
TOTAL ASSETS	817,347	414,786	841,654	642,804	2,716,591
Due to banks and deposits from the					
National Bank of Hungary and other banks	31,753	26,898	18,741	1,668	79,060
Deposits from customers	1,727,023	390,027	19,914	14,205	2,151,169
Liabilities from issued securities	3,133	9,180	32,506	40,043	84,862

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<i>(Continued from page 143)</i>	Within 3 months	Whitin one year and over 3 months	Within 5 years and over one year	Over 5 years	<i>(in HUF mn)</i> Total
Accrued interest payable	6,003	3,691	2,900	33	12,627
Other liabilities	69,410	9,955	15,415	54,565	149,345
Subordinated bonds and loans	–	–	10,511	5,000	15,511
TOTAL LIABILITIES	1,837,322	439,751	99,987	115,514	2,492,574
Share capital	–	–	–	28,000	28,000
Retained earnings and reserves	–	–	–	223,412	223,412
Treasury shares	–	– 27,800	–	–	– 27,800
TOTAL SHAREHOLDERS' EQUITY	–	– 27,800	–	251,412	223,612
MINORITY INTEREST	–	–	–	405	405
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,837,322	411,951	99,987	367,331	2,716,591
LIQUIDITY (DEFICIENCY)/EXCESS	– 1,019,975	2,835	741,667	275,473	–

NOTE 32: INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Group's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported according to their next repricing date. Fixed income assets and liabilities have been reported according to their maturity.

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As at December 31, 2003 (in HUF mn)

ASSETS	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Cash, due from banks and balances															
with the National Bank of Hungary	195,058	3,979	481	-	-	-	-	-	-	-	55,004	21,979	250,543	25,958	276,501
Fixed rate	195,004	3,875	-	-	-	-	-	-	-	-	-	-	195,004	3,875	198,879
Variable rate	54	104	481	-	-	-	-	-	-	-	-	-	535	104	639
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	55,004	21,979	55,004	21,979	76,983
Placements with other banks, net of allowance for possible placement losses	92,972	121,031	2,500	8,130	2,500	4,913	-	-	24	-	3,901	16,364	101,897	150,438	252,335
Fixed rate	89,972	116,862	2,500	3,325	2,500	-	-	-	24	-	-	-	94,996	120,187	215,183
Variable rate	3,000	4,169	-	4,805	-	4,913	-	-	-	-	-	-	3,000	13,887	16,887
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,901	16,364	3,901	16,364	20,265
Securities held-for-trading and available-for-sale	25,933	5,130	48,751	14,540	61,112	17,045	40,292	6,588	93,575	44,030	17,689	2,331	287,352	89,664	377,016
Fixed rate	3,218	1,370	31,498	2,577	60,098	2,688	40,292	6,588	93,575	44,030	-	-	228,681	57,253	285,934
Variable rate	22,715	3,760	17,253	11,963	1,014	14,357	-	-	-	-	-	-	40,982	30,080	71,062
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	17,689	2,331	17,689	2,331	20,020
Loans	741,583	374,414	154,269	142,550	34,258	31,417	25,970	3,752	462,898	8,252	2,229	995	1,421,207	561,380	1,982,587
Fixed rate	14,022	2,119	3,813	907	5,029	6,083	5,482	1,700	44,835	4,545	-	-	73,181	15,354	88,535
Variable rate	727,561	372,295	150,456	141,643	29,229	25,334	20,488	2,052	418,063	3,707	-	-	1,345,797	545,031	1,890,828
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,229	995	2,229	995	3,224
Debt securities held-to-maturity	22,697	2,272	103,867	-	51,083	662	36,672	2,065	65,640	14,348	-	466	279,959	19,813	299,772
Fixed rate	-	-	766	-	39,798	571	36,672	2,065	65,640	14,348	-	-	142,876	16,984	159,860
Variable rate	22,697	2,272	103,101	-	11,285	91	-	-	-	-	-	-	137,083	2,363	139,446
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	466	-	466	466
Fair value of derivative financial instruments in other assets	43,526	50,501	112,327	16,869	45,652	25,189	10,805	7,567	43,314	3,893	-	3	255,624	104,022	359,646
Fixed rate	23,569	50,501	46,725	15,118	5,288	25,189	10,805	7,567	43,314	3,893	-	-	129,701	102,268	231,969
Variable rate	19,957	-	65,602	1,751	40,364	-	-	-	-	-	-	-	125,923	1,751	127,674
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	3	-	3	3

LIABILITIES	Within 1 month		Within 3 months over 1 month		Within 1 year over 3 months		Within 2 years over 1 year		Over 2 years		Non-interest bearing		Total		Total
	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	HUF	In foreign currency	
Due to banks and deposits from the National Bank of Hungary and other banks															
Fixed rate	8,815	59,451	-	28,190	-	16,739	6	7,435	1,198	2,363	665	1,540	10,684	115,718	126,402
Variable rate	2,807	20,232	-	8,421	-	9,298	6	6,129	1,198	281	-	-	4,011	44,361	48,372
Non-interest-bearing	6,008	39,219	-	19,769	-	7,441	-	1,306	-	2,082	-	-	6,008	69,817	75,825
Deposits from customers	-	-	-	-	-	-	-	-	-	-	665	1,540	665	1,540	2,205
Fixed rate	1,769,174	399,843	217,867	217,323	14,613	39,239	9,075	1,543	16,753	13	3	4,387	2,027,485	662,348	2,689,833
Variable rate	364,763	127,753	217,867	217,323	14,613	39,239	9,075	1,534	16,753	13	-	-	623,071	385,871	1,008,942
Non-interest-bearing	1,404,411	272,090	-	-	-	-	-	-	-	-	-	-	1,404,411	272,090	1,676,501
Liabilities from issued securities	-	-	-	-	-	-	-	-	-	-	3	4,387	3	4,387	4,390
Fixed rate	16,879	249	25,562	1,018	10,467	828	1,801	97	64,698	3,187	101	-	119,508	5,379	124,887
Variable rate	609	249	761	1,018	10,467	828	1,801	97	64,698	3,187	-	-	78,336	5,379	83,715
Non-interest-bearing	16,270	-	24,801	-	-	-	-	-	-	-	-	-	41,071	-	41,071
Fair value of derivative financial instruments in other liabilities	-	-	-	-	-	-	-	-	-	-	101	-	101	-	101
Subordinated bonds and loans	14,301	85,576	23,510	90,428	56,382	6,696	41,579	-	42,766	-	-	-	178,538	182,700	361,238
Fixed rate	8,054	67,063	5,102	59,384	24,026	6,696	41,579	-	42,766	-	-	-	121,527	133,143	254,670
Variable rate	6,247	18,513	18,408	31,044	32,356	-	-	-	-	-	-	-	57,011	49,557	106,568
Subordinated bonds and loans	-	-	-	-	5,000	10,413	-	-	-	-	-	-	5,000	10,413	15,413
Variable rate	-	-	-	-	5,000	10,413	-	-	-	-	-	-	5,000	10,413	15,413

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NOTE 33: EARNINGS PER SHARE

Consolidated Earnings per share attributable to the Group's common shares are determined based on dividing consolidated income after income taxes for the year attributable to common shareholders, after the deduction of declared preference dividends, by the weighted average number of common shares outstanding during the period.

	2003	2002
Consolidated net income (in HUF mn)	83,336	59,231
Weighted average number of common shares outstanding during the year for calculating basic EPS (piece)	260,408,048	258,901,972
Consolidated Basic Earnings per share (in HUF)	320	229
Weighted average number of common shares outstanding during the year for calculating diluted EPS (piece)	261,463,569	259,550,274
Consolidated Diluted Earnings per share (in HUF)	319	228

The weighted average number of common shares outstanding during the period does not include treasury shares.

Diluted Earnings per share are determined after additionally taking into consideration the optional rights given to Senior Management of OTP Bank.